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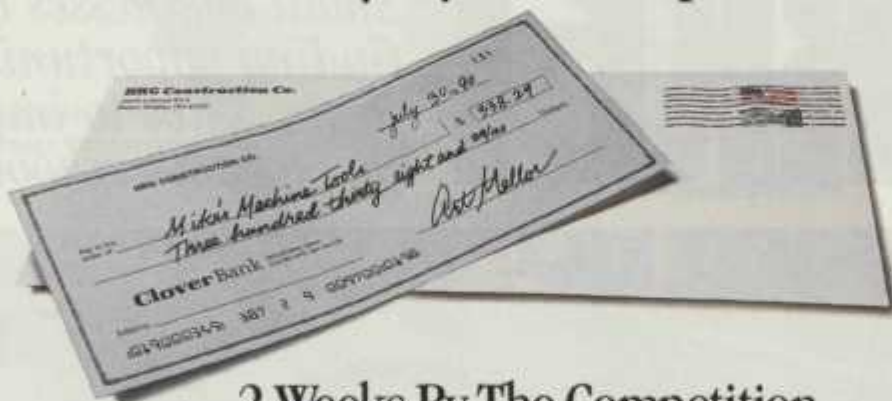
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PHOTO: BOB SAEMMICH

Entrepreneurs like Lloyd O. Otterman, whose company televises courses to high schools throughout the country, have found market opportunities in education reform. Cover Story, Page 18.



PHOTO: T. MICHAEL KEZA

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These concrete suggestions can help you craft an agreement to keep former employees from using your resources—such as your client list—to compete against you.

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65 Where I Stand

Does your company have health insurance? If not, why not? If so, how do higher costs affect you? This month's survey covers health care. And you now have the option of faxing a response.

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Washington, D.C.

Editor's Note

Small Firms' Learning Curve

"Homework? Tonight? We never get any homework."

Parents frequently receive that assurance from children turning on the television or heading out the door. It might be true. If it isn't, the parents often aren't aware of the facts until end-of-term explorations of why marks have dropped. But entrepreneur/educator Jerold P. Bauch offers parents an alternative way of remaining current on classroom activities. He developed the Transparent School, a computer-based telephone service that alerts parents to their children's homework assignments, among other information. Bauch, at left in the accompanying photo, heads the Center for Parenthood Education at Vanderbilt University. He says that student performance and parental satisfaction with schools go up when the system is used.

As this month's cover story by Senior Editor Joan Szabo points out, Bauch is one of the many individuals whose entrepreneurial contributions are helping the nation to improve its schools. In applying their creativity and drive to this high national priority, these small-business people are finding new markets that will expand substantially within the next few years. The story will probably start you to thinking whether your product or service might fit into this pattern. The checklist on Page 24 will help.

You'll see two major changes in our "Where I Stand" survey this month (Page 65). In the past, we have asked for your stand on specific legislative matters, and your responses have been used effectively in the decision-making process in Washington. To make the survey even more effective, we want to know how various issues affect you on a day-to-day basis. Health care is the first subject addressed in that fashion. We'll be asking over the coming months about education, trade, the labor shortage, and other matters of major concern. Your response is important to us. It could be even more important to you. The second change in this survey lets you fax your response as an alternative to using the mail card.

Robert T. Gray

Robert T. Gray
Editor



PHOTO: © MANUELO PAGANELLI—WOODFIN CAMP

Putting the world into computer software put Roy Kessler into a market niche. Making It, Page 14.



PHOTO: T. MICHAEL KEEN

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Cover Photo: © Martin Triller

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Letters

Independent Contractors

"After You Hire A La Carte" [June] discussed the importance of determining whether an individual is an employee or independent contractor. Actually, the most efficient, hassle-free method by which companies can obtain extra and part-time employees is the use of temporary-help services. Firms using "temps" do not have to worry about payroll records and tax problems or about what constitutes an independent contractor.

James R. Gray
President
Express Services
Boulder, Colo.

Postal Service

Although the article "Postal Rates: The Growing Threat" [May] was written to show the effect of the proposed postal-rate increase, I would like to pass on a tip.

Several years ago the banking community started direct deposits for payroll checks. Now utility customers can have their bank accounts debited for monthly bills. This saves check-clearing costs for the bank. It also passes on savings to customers by avoiding the cost of postage, check-printing fees (fewer checks written), and the time used to write monthly checks.

Beau F. Lee
Clinton, Miss.

Regulatory Resurgence

Your June editorial "Advice For A Very Busy Chief Executive" noted a resurgence of regulatory activity in several areas. I am familiar with this problem.

Nursing homes here in Indiana must comply with a multiplicity of regulators as well as try to please our residents, their families, friends, and senior-citizens organizations.

Gary A. Loveless
Administrator
Crestview Health Care Facility
Indianapolis

Old Glory

There is a larger question in the debate over whether the U.S. Constitution should be amended to permit enactment of laws against burning the American flag: Why did flag burning become an issue at all?

Our flag has been much more than a symbol; it has been a reminder of our

heritage and of those who strove to make this country prosper, a sign of our accomplishments, and our mark of honor to those who gave their lives in the name of this great nation.

We need to look beyond the flag-burning issue to the situation that now faces us as a still-young nation. Individually and collectively, we have lost our stability; we no longer have anything to look up to.



PHOTO: ELES MOORE-UNPHOTO

What we need now are not more constitutional amendments but a way to restore trust in our government and corporate leaders and to restore our pride in the diversity of our human resources and in our nation's great potential.

Most of all, perhaps, we need confidence in ourselves that we can truly make a difference in the world. When we have found these ideals again, who will be burning flags?

John D. Troughton
Richmond, Calif.

More On Social Security

This responds to comments in letters on your April cover story, "Social Security: Hard Choices Ahead."

Social Security is not a "great rip-off of the young workers by the elderly," as Warren Y. Francis of Royersford, Pa., described it. Nor is it a device to make young people "feather their grandparents' nests," as Michael R. Murray of Upper Darby, Pa., put it.

I am 74 years old, still working, and paying Social Security taxes. There are thousands like me who have paid for their eventual retirement stipend and thousands who will never live to get it.

Bernice Kottler
Michigan City, Ind.

Michael R. Murray and Warren Y. Francis are not paying for someone else's welfare. Retirees have paid into Social Security all of their working lives.

Murray and Francis will reap the benefits of their payments, along with their employer's payments, to the Social Security fund, but only on one condition. They are going to have to fight Washington politicians who are raiding the Social Security fund for every pet project under the sun.

Maurice E. Lindsay
President
Torque Master Products Inc.
El Segundo, Calif.

In resolving the Social Security dilemma, it is critical to acknowledge that much of the money contributed to the Social Security system by the current generation of workers will not be recouped through that system. Also, it is important to remember that any restructuring of Social Security will come at some expense to current and future generations of workers, to meet the expectations of past generations of workers who participated in the system. Any proposal to do otherwise is doomed.

A system so deeply embedded in our political and societal framework will not be removed without some sacrifice from those of us expecting to benefit from its demise.

James A. Blalock III
Los Angeles

Product Liability

The solution to "The Maze of Product Liability" [June] is simple. Emulate the legal system of almost every other nation regarding contingency fees and the assessment of fees and costs to the losing party. Practically all countries provide for the payment of the defendant's legal fees and other costs if the defendant wins.

You cite that the Will-Burt Co. spent \$600,000 in winning every case filed against it. Be assured that few, if any, of these suits would have been filed if the plaintiffs had to pay attorneys' fees and knew that they would pay the defendants' legal and other expenses if their suits were unsuccessful.

S.S. Steele
Chief Executive Officer
S.S. Steele and Co. Inc.
Mobile, Ala.

My company does product-liability investigations for many of our nation's major manufacturers.

The way that the civil courts handle product liability is a travesty. It is terribly expensive and time-consuming, and

it stifles the development of new products.

As we attempt to compete with the rest of the world in commerce, we will be stifled by our inability to create and innovate for fear of the cost of product-liability suits.

Reading about huge verdicts may make good copy and give plaintiff lawyers an ego trip, but they are few and far between, when measured against all product cases filed.

Most cases really have no value and are "gambles" by the plaintiffs to hit the jackpot.

C.D. Stis
Account Manager
Countrywide Services Corp.
St. Louis

Education Reform

Re "Grass-Roots Education Reform" [June]: As a former teacher now in private business, I agree that the American educational system needs a total restructuring. But business leaders, political leaders, and even educational leaders think restructuring is having business pour money and human resources into the present system. The U.S. already spends much more money per student than most other countries, yet some have better education systems.

Secretary of Education Lauro F. Cavazos hit it on the head when he said, "Reading and writing are the basic tools of learning." If you can read, you have the basis to learn math, science, and history. All educational disciplines are found in written form. Why then do most schools eliminate reading courses from their curriculum before ninth grade? Why aren't compulsory reading competencies required across the country? Why don't businesses demand higher reading competencies for their new entrants?

As long as students are allowed to exit school and enter the work force before they are competent in certain areas, attitudes will not change, and reform will not take place.

Scott Nendza
Landisville, Pa.

Civil-Rights Risks

It's frightening to watch the ease with which Congress is willing to undermine some of the most basic rights of the American public and American business ["Risks For Firms In Civil-Rights Bill," June].

In requiring an employer to prove its practices are not discriminatory, rather than placing the burden on an employee to prove discrimination exists, the accused firm is presumed guilty and is

under the gun to prove its innocence.

At a time when they lecture the leaders of Eastern Europe, the People's Republic of China, and other nations on the virtues of creating economic systems free of government interference, our elected leaders continue with their onslaught of ponderous new rules and regulations governing the actions of private businesses in the name of solving real or imagined social ills.

It might be interesting to ask Sen. Edward Kennedy and his colleagues if the language in their proposed Civil Rights Act of 1990 will apply to members of Congress, or whether they will again exempt themselves from the intrusive burdens they impose on their constituents as they have done with almost every health-and-safety, civil-rights, and labor law, including participation in Social Security.

Although there should be no tolerance in America for discrimination on the basis of race, gender, color, religion, or national origin, to subvert the fundamental concept of the presumption of innocence is both antithetical to our system of jurisprudence and a clear and present danger to our liberties.

Richard B. Newbert
Amherst, N.H.

Weddings

Your June cover story ["Romancing A \$30 Billion Market"] overlooked the limousine industry. More than 80 percent of today's weddings use limousine services.

Getting everyone to the wedding on time seems to be a principal concern these days for these momentous occasions.

Wayne J. Smith
Executive Director
National Limousine Association
Washington, D.C.

You did not give any attention to the wedding-invitations business.

Lynn Davis
President
Invites
Tampa, Fla.

[Editor's Note: "Limousine" and "Invitations, announcements" were among the items in a listing headed "Average Costs Of A Formal Wedding," which was part of the article.]

Send letters to Editor, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062, and include your phone number. Letters addressed to the Editor will be considered for publication unless the writer requests otherwise, and they may be edited and condensed.

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ENTREPRENEUR'S NOTEBOOK

Closing That First Deal

By Joe Cossman



PHOTO: ©RICK HICKMAN-BLACK STAR

When I returned to the U.S. in 1946 after three years of World War II service, I had a wife, a small daughter, \$254 in the bank, and an idea. The idea was for an export business to supply items badly needed overseas.

I landed a job as a correspondence clerk with a well-known import-export firm in Pittsburgh. It paid only \$35 a week, but the work helped me learn the fine points of letter writing, merchandising, and the inner workings of foreign trade.

With my first paycheck, I put a down payment on a \$50 portable typewriter and opened my office on our kitchen table. Each day I would work for eight hours at the export company and then come home to peck away on my typewriter for another eight hours. After a year of stretching pennies, I got my first big break: A small classified ad in *The New York Times* offered laundry soap in quantities large enough to be exported profitably. I answered the ad, requested samples, and air-mailed them to six of my overseas correspondents. Back flew an order from my South African correspondent for the complete stock. And best of all, the order was accompanied by a letter of credit for \$180,000!

The effort to make that luck pay off was just beginning, however. The letter of credit said my American bank would pay me \$180,000 as soon as I presented to the bank bills of lading showing the laundry soap on board a ship. The letter also stipulated that the bills of lading had to be presented to my bank within 60 days. I knew I had to devote full time to the details of this exporting venture, and although I was afraid to lose the security of my paycheck, I also was afraid of losing the order. I asked my boss for a leave of absence.

I took my life savings of \$254, went to New York, called the man who ran the ad, and told him I would buy his complete stock of soap. He had only samples—none for exporting. He had put the ad in the paper on speculation, suspecting the soap was somewhere in the U.S.

I had to find that soap, and my only clue was its trade name, which had been used in the ad. I spent a day at the New York Public Library compiling a list of names and addresses of all U.S. soap manufacturers. The next day, from my hotel room, I started calling manufacturers. At noon the following day, I hit the jackpot: A person at an Alabama soap plant said there were 30,000 cases of the soap I was looking for in the firm's warehouse there.

What's more, the soap company's offices were in New York—a few blocks from my hotel.

I ran all the way to that company's offices, barged in, and demanded to see the president. I showed him the letter of credit and the actual order, and we completed negotiations on the spot. All I had to do was get the soap from Alabama onto a ship in New York.

Armed with a letter from the president stating that I was to get delivery of the soap in Alabama, I pounded New York's pavements for two days until I found a trucking company that would lend me 30 trucks on credit to pick up the soap. When we set out for Alabama, I didn't have a cent to my name. I had to borrow food money from the drivers. Arriving back in New York, we got to the docks the evening of June 11—the day before the letter of credit would expire. Stevedores loaded soap through the night, and I worked with them. As the last

case was loaded, I looked at my watch: 2 p.m. The bank would close, and my letter of credit would be worthless. I still had no bills of lading.

I barged into the offices of the shipping line's president—I must have been a sorry sight: I hadn't shaved or changed clothes in two weeks—and I recounted the story. He replied: "If you've gone through this much to put over a business deal, you're not going to lose it now. I'll get you your bills of lading." He did it within 10 minutes and sent me off in his limousine to the bank.

We got to the bank about 15 minutes before closing time. I rushed in and presented all my documents to the teller and in return received a check for \$180,000. I left the bank with my head in the clouds but suddenly realized I didn't have cab fare to get back to my hotel. I went back into the bank and asked for a breakdown of the \$180,000—a check to the soap company for \$150,000, a check made out to me for \$25,000, and \$5,000 in cash. I went back to my hotel, paid my bills, and telephoned my wife with the good news. She began crying. An \$8.25 check she had written for a grocery bill had bounced.

Making \$30,000 on my first business deal was exciting, but not as exciting as the sudden knowledge that I did not have to work for anyone again. That is why I am constantly encouraging people to clear off the kitchen table and start an enterprise that they can control, not one that controls them. Lack of education, or money, or business connections—those matters are not important. What is important is that we live in a country that fosters entrepreneurship, where determination and hard work pay off.

Since the soap deal, I've been in my own businesses for the past 40 years. I say "businesses" because I have been in 20 of them, each one different and each one making me a million dollars or more. ■



Joe Cossman

Joe Cossman heads Cossman International Inc., P.O. Box 4480, Palm Springs, Calif. 92263.

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Small-Business Update

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PERSONNEL

Small Firms Pay More For Relocations

Smaller companies paid \$683 above the average cost for companies of all sizes for domestic relocations of employees in 1989, according to a study by Atlas Van Lines Inc. The average domestic move for all companies was found to be \$8,295. Of that amount, \$5,182 was paid for direct moving services such as packing and transportation, and \$3,113 went for indirect expenses such as motel accommodations, meals, and counseling for spouses.

But small firms—those with less than \$100 million in annual sales—paid \$6,005 for direct moving services and \$2,973 in indirect expenses, for a total average of \$8,978.

Larger companies pay less because they have "pricing clout," says J. Stephen Mumma, senior vice president of marketing and public relations at Atlas. "The very large corporate accounts still demand the very deepest discounts because of the volume that they can offer."

Mumma says there are two ways smaller companies can save money on relocations:

- Set a limit on the total weight of the goods you will pay to move for each employee and on the "extras," such as



PHOTO: ©CAMERON DAVIDSON-FOLIO, INC.

Relocating employees can be costlier for small firms than for large companies, yet there are ways to keep expenses in line.

boats or second cars, that you will move. In effect, this means determining how important the employee is to you and how far you will go to persuade the employee to move.

- Be tough in negotiations with moving companies. Mumma says you probably can find a carrier who will meet your price, although if your price is too low, service may suffer.

Nearly 71 percent of the small companies that responded to the survey

said they had formal relocation policies. Seventy-eight percent said they would pay for moving recreation and lawn equipment, and 45 percent said they would pay to move an employee's pets. Only 3.6 percent would hire temporary maid service at either the old or the new residence.

For all companies, the transferred employee is most typically a salesman 31 to 40 years old earning \$30,000 to \$50,000.

ENVIRONMENT

Land-Cleanup Liability Broadens For Lenders

A federal appeals court in Atlanta has greatly expanded environmental liability for commercial lenders under the Superfund law. The court held a finance company liable for cleanup costs for a site owned by one of its borrowers, Swainsboro Print Works, a bankrupt textile facility in Swainsboro, Ga.

The ruling by the 11th U.S. Circuit Court of Appeals in *U.S. vs. Fleet Factors Corp.* "should send a shudder of alarm" through commercial lenders, says Larry Schnapf, an environmental lawyer with Lord Day & Lord, Barrett Smith, in New York City. He says the decision has "blurred the distinction between prudent oversight [by a lender] and excessive entanglement in the day-to-day affairs" of a debtor.

"Avoiding Risks By The Acre," in the

May issue of *Nation's Business*, detailed the environmental-liability quandary for small firms and their lenders. The recent court ruling broadens the problem by targeting a secured lender for reasons other than foreclosure on a debtor's property.

Fleet Factors Corp. of Providence, R.I., argued that it fell under the Superfund exemption for lenders holding a security interest in a cleanup site. The appeals court ruled, however, that Fleet's "involvement in the financial management of the facility was pervasive if not complete." Fleet Factors is expected to request a new hearing.

After the Fleet decision and other land-cleanup rulings, Lee A. Schroeder, president of First National Bank, Dana, Ind., told the House Small Business Committee that his bank must "carefully consider what types of businesses... could present liability problems."

LAW

Labor Secretary Wants Balance On Youth Labor

U.S. Labor Secretary Elizabeth Dole says that some employers are violating child-labor laws in their efforts to cope with a growing labor shortage.

Noting that the work force is growing at a rate of only 1 percent a year, Dole said that some employers have reacted to that trend by "reaching into prohibited age groups for new hires."

Dole commented in calling for stiffer penalties for violations of child-labor laws. She proposed that Congress raise the penalty for civil violations to a maximum of \$10,000 per incident; it is now \$1,000. The secretary also urged the amending of criminal sanctions to allow imprisonment upon first conviction for a willful violation. Imprisonment is now allowed only for second or subsequent violations.

By controlling medical claims, Amerisure helps to hold down insurance costs.

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START-UP

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You can learn a host of entrepreneurial skills at home through three new videotapes.

"How To Start Your Own Successful Business" is a two-hour video guide hosted by Caroline R. Jones, president of Caroline Jones Advertising, in New York. It covers such topics as obtaining

the videotape into schools and prisons.

Two other videotapes have been created in a joint effort by the U.S. Small Business Administration (SBA) and Bell Atlantic:

"Marketing: Winning Customers with a 'Workable Plan'" offers practical tips for developing the most effective marketing strategy for your firm.

"The Business Plan: Your Road Map for Success" directs you through seven



PHOTO: ©TOM DOBOS/BLACK STAR

Advertising executive Caroline R. Jones hosts a two-hour video on entrepreneurial topics such as setting up a home-based business.

financing, analyzing business-insurance needs, buying a business, evaluating franchise opportunities, and setting up a home-based business.

The tape is available for \$29.95 plus \$4 for shipping and handling from In the Black Production\$ Inc., P.O. Box 1229, New York, N.Y. 10185; (212) 864-0318.

Part of the proceeds will go to the National Entrepreneurial Youth Education Project, an effort aimed at getting

steps of writing a business plan that works. Business plans, the SBA notes, are often necessary to obtain financing.

The SBA videotapes include step-by-step workbooks and are available for \$30 each from the U.S. Small Business Administration, Dept. A, P.O. Box 30, Denver, Colo. 80201-0030.

The SBA and Bell Atlantic are developing a library of business videotapes and hope to have a dozen available within the next two years.

INTERNATIONAL TRADE

Helping U.S. Firms Venture Into Eastern Europe

U.S. businesses considering participation in new ventures in Hungary, Poland, or Yugoslavia may be eligible for financial aid from the Overseas Private Investment Corporation (OPIC), a U.S. government agency.

OPIC is establishing a \$200-million East European Growth Fund to finance what it perceives as productive enterprises in the three countries of the region where OPIC is authorized to operate. OPIC will provide long-term debt capital for up to 25 percent of total capitalization of qualifying ventures.

Qualifying ventures must have U.S. involvement in the form of equity participation, technical or management support, or supply or marketing contracts. For more information, call Graham Williams of OPIC at (202) 457-7105.

MANAGEMENT

Criticism: Putting It Off Can Create Problems

Managers who put off criticizing workers' performance run the risk of eroding the manager-employee relationship, says management psychologist Robert A. Baron. Damaging that relationship could be especially harmful in smaller businesses, he adds.

Baron, who is chairman of the psychology department at Rensselaer Polytechnic Institute, in Troy, N.Y., explains that managers who fail to point out workers' mistakes and shortcomings as they occur tend to wait until an especially annoying grievance arises. Then they deliver criticism that is often inconsiderate, threatening, or not specific to the problem, Baron says.

Managers should provide negative feedback when required and not wait until restraint is no longer possible.

INNOVATION

DOE Announces Research Awards

About 170 small businesses in various high-technology fields have been awarded Small Business Innovation Research grants by the U.S. Department of Energy (DOE).

Small firms in 32 states have qualified for research grants of up to \$50,000 for projects in specialties such as genetics, superconductivity, fossil fuels, and electromagnetic radiation.

These primary awards are for feasibility studies of particular innovations.

Jeff Sherwood, a DOE spokesman, says about one-third to one-half of the grant recipients will qualify for the second tier of awards, in which companies receive up to \$500,000 to develop their technologies. The third phase of the Small Business Innovation Research (SBIR) program uses private funds to market the new concepts commercially.

The 8-year-old SBIR program "is a mutual process," Sherwood says, in that DOE supplies capital for projects that meet the department's needs.

DOE expects to issue another solicitation for SBIR projects this fall. Interested companies should contact SBIR Program Manager, Office of Energy Research, ER-16, Department of Energy, Washington, D.C. 20545.

NB TIPS

✓ *The Encyclopedia of Records Retention*, published by the Records Management Group, Northfield, Ill., is a well-organized and comprehensive resource for business managers. The volume lists the appropriate retention periods for more than 4,000 types of records in 23 major functional classifications, including administrative, customer services, human resources, and sales. The book also describes filing practices and identifies vital records and microfilm applications.

The publication is \$103. It is available from The Records Management Group, P.O. Box 8320, Northfield, Ill. 60093; (708) 446-3222.

✓ *On Your Own: A Woman's Guide To Building A Business* is designed for women who need greater technical know-how and management education to start a business or make an existing one succeed. It includes sections on dealing with fear, finding the right support people, finding free or low-cost assistance, writing a first-rate business plan, learning how to use financial statements, and working with bankers and other professionals.

The 224-page book sells for \$18.95. It is available in some bookstores, or it can be ordered from Upstart Publishing Co., (800) 235-8866. There is a \$3.00 charge for shipping and handling. ■

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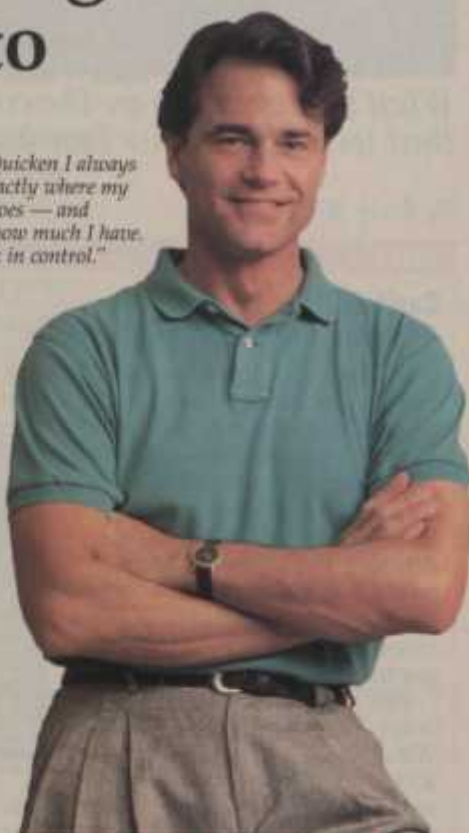
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Dateline: Washington

What's happening in the corridors of power that will affect your business.

By Mary McElveen

TAXES

Capital-Gains Proposal Acquires Bipartisan Support

Advocates of a lower capital-gains tax rate see a strategic advantage in the bipartisan sponsorship of a new bill designed to achieve that goal.

Democratic leaders have tried to portray the Bush administration's call for a lower rate as evidence of Republican concern for wealthy taxpayers. A Democratic senator's sponsorship of a rate-cut measure weakens that argument drastically, however.

The new bill, introduced by Sens. Robert W. Kasten Jr., R-Wis., Connie Mack, R-Fla., and Richard C. Shelby, D-Ala., would reduce the top individual and corporate tax rates to 15 percent on assets held at least one year. Currently, the top rates are 34 percent for corporations and 33 percent for individuals.

The capital-gains debate is expected to begin in earnest once the issues of the federal budget for fiscal 1991—in-

cluding the controversial matter of possible tax increases—are defined.

Earlier this year, President Bush proposed to reduce the capital-gains tax rate for individuals to 19.6 percent on



PHOTO: T. MICHAEL KEAR

Lower tax rates on capital gains would stimulate research.

assets held at least three years. The administration backs a rate cut as a way to spur economic activity that in turn would generate more revenue.

There had been speculation that the bill's backers would delay a vote in the hope that election-time pressures would generate enough votes for them to achieve the level needed to override. But in July, House Democratic leaders apparently decided to proceed with a vote even if they could not win.

WORKER SAFETY

Bill Would Stiffen OSHA-Related Penalties

The Senate Labor and Human Resources Committee has approved a bill to strengthen and expand criminal penalties under the Occupational Safety and Health Act of 1970. Penalties that currently are applied only in cases involving a worker's death would be extended to violations that result in serious injury to workers and to cases in which life is endangered although there is no injury or death.

The measure is just one sign of a growing sentiment in Congress for stepping up regulation of business, according to Jeffrey Perlman, manager of legal and regulatory affairs for the U.S. Chamber of Commerce.

IMMIGRATION

A Measure To Remove Sanctions On Employers

Sens. Orrin G. Hatch, R-Utah, and Edward M. Kennedy, D-Mass., who usually are on opposite sides of business-related legislative battles, are working together to remove employer sanctions from the 1986 immigration-reform law.

The law requires employers to make sure that workers they hire are eligible for employment in the U.S. It provides for heavy civil and criminal penalties, including imprisonment, for violations.

Senate legislation introduced by Kennedy, Hatch, and Sens. Dennis DeConcini, D-Ariz., and Alan Cranston, D-Calif., and a similar House bill introduced by Rep. Edward R. Roybal, D-Calif., would delete the law's sanctions and increase the Labor Department's resources for enforcing it.

The proposals follow a report by the General Accounting Office that the sanctions had resulted in a "widespread pattern" of discrimination by employers who declined to hire eligible workers because they appeared to be foreign or spoke with an accent.

When the law was under debate, opponents argued that it would produce just such a discriminatory result, but supporters of the measure insisted that there was no basis for such concern.

NEW SERVICES

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Telephone services provided by the U.S. Chamber of Commerce enable business people to stay abreast of business-related developments in Congress, the executive branch, and the Supreme Court and to express their views on the issues involved.

The numbers, with the cost of the first/additional minutes of telephone calls, are:

The Washington Dial, a daily update on key business issues. 1-900-420-6001; \$1.00/50 cents.

Opinion Line, a poll of viewers of the weekly Chamber television program "It's Your Business." 1-900-420-6002; \$1.00/50 cents.

Check your local television listings for the dates and times that the program is broadcast. ■

BENEFITS

Business Confident On Sustaining Leave Veto

Business is confident that employers will escape, for this year at least, a mandate that they provide annual family-related leave to workers.

In June, President Bush vetoed legislation to require employers of 50 or more workers to grant employees up to 12 weeks of unpaid leave a year to deal with such matters as the birth or adoption of children and the illness of family members.

Business expectations that the veto would be upheld were geared primarily to the House, where the bill's margin of passage was nearly four dozen members short of the total needed to override a veto. Two-thirds majorities of both houses of Congress are required to override; none of Bush's 12 previous vetoes has been overridden. The Senate was more likely than the House to have the votes for an override.

Bush said he vetoed the measure because it would put an excessive burden on businesses; he has said he opposes the federal government's mandating leave policies.

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Making It

Growing businesses share their experiences in creating and marketing new products and services.

How A Computer Program Put The World At His Feet

Roy Kessler seemed destined for scholarly pursuits, but he ended up pursuing business.

Kessler, 33, studied comparative literature at Princeton University, concentrating on the French and Russian languages. He worked briefly as an interpreter for the State Department before continuing his studies of Russian in Moscow. In 1980 he returned to the U.S. and spent two years earning an MBA from Columbia University. Then it was back to Europe, this time as a financial controller for the Renault Corp. in Paris.

In his spare time, Kessler taught an English-language course that prepared French students for the Graduate Management Admissions Test, the standardized test for gaining admission to American MBA programs. The proprietor of the school where he taught had

a brother who was a computer retailer in Phoenix, Ariz., and she suggested that Kessler might get together with her brother to construct a computer course for the GMAT.

Kessler thought that was a great idea, so the two men formed a new company to devise the necessary software, even though neither of them was a programmer. Kessler, in fact, had become well acquainted with computers only while working at Renault. He had been the sole English-speaking person in his office, so it had been up to him to become proficient on the IBM PC.

Everything about the GMAT software proved disastrous.

Arizona entrepreneur Roy Kessler computerizes geography through his PC Globe software.

"I thought," Kessler says, "that after starting a company, you automatically become rich and can live anywhere you want in the world. I was wrong on all counts. I'm still in Phoenix, and for 2 1/2 years I starved."

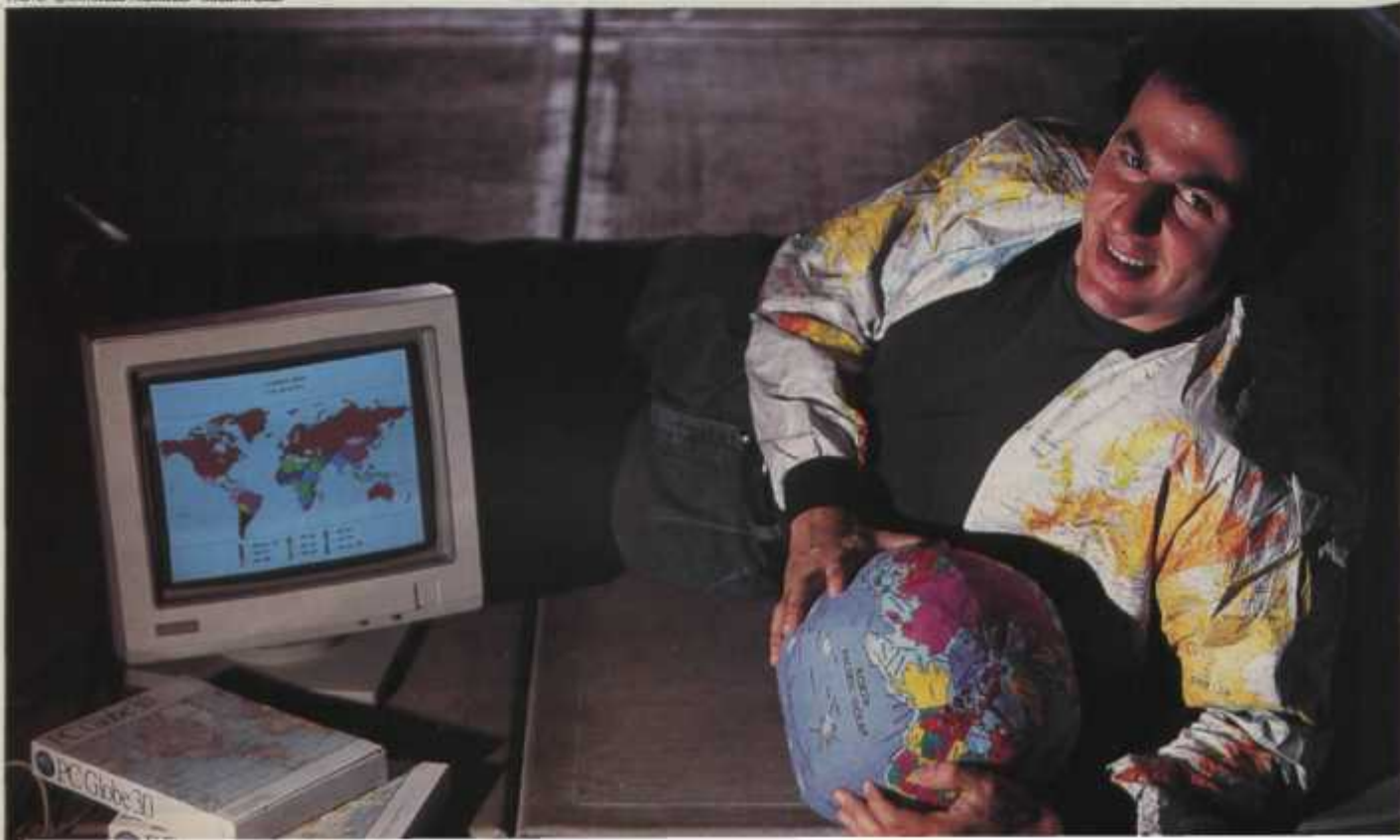
When Kessler started work on the course, there were no competitors in sight. By the time he finished, three major companies had similar courses on the market. "We made 1,000 units," Kessler recalls, "and sold about half."

While working on the GMAT course, Kessler tinkered with an idea he had come up with while he was in Paris. Since Renault was a worldwide organization, Kessler continually found himself consulting various reference books to find information about countries. He wished someone would consolidate all that information and put it on a disk.

Eventually, he did the job himself.

Kessler bought out his old partner, moved what was left of their company from Phoenix to nearby Tempe, Ariz., and began PC Globe Inc., which produced a software package of the same

PHOTO © MARIELLO PAGANELLO—WOODFIN CAMP



MAKING IT

name—a versatile, computerized atlas at an affordable price (the list price is \$69.95, but it often sells for under \$50).

The program, for IBM-compatible computers, offers an integrated package of maps and graphics giving instant, detailed profiles of 177 countries. An extensive database for every country includes demographic, health, industrial, agricultural, and economic statistics, plus information on major cities, including their populations, time zones, and tourist attractions.

The original PC Globe was introduced in June 1987. Kessler admits it survived "because it was the only one around." It sold about 5,000 copies.

In November 1988, the company produced an enhanced version of the program, called PC Globe Plus. Kessler took the product to a Las Vegas trade show. "It wasn't quite finished yet," he

says, "but a lot of people saw it, and it inspired a lot of interest."

In January 1989, PC Globe Inc. sold \$30,000 worth of its product; by the summer, the monthly total had risen to \$75,000. In August, the company introduced a second product, called PC USA, and in September, total sales reached \$275,000.

Since October 1989, shipments have not fallen below \$400,000 a month, and frequently they exceed \$600,000. Total sales rose from \$160,000 in 1988 to \$1.2 million last year; when the 1990 fiscal year ends in September, sales will have reached about \$7 million. "The company is extremely profitable," Kessler says.

PC Globe has a staff of 21, but it hires, on a free-lance basis, students and professors from nearby Arizona State University to do the research and verify statistics. The data are updated

annually. Once someone becomes a registered owner, updates can be acquired for about \$20. PC Globe adds other enhancements to the program, too.

Although well over 60 percent of buyers are parents with children, the software can be found in a host of large corporations. Kessler's company is now working on a professional version of PC Globe that will allow users to integrate their own files into the software as if it were a spreadsheet.

PC Globe and PC USA are available in Spanish, German, and French, and they are sold in 15 countries. Also in the works is PC Europe. Coming out this summer will be versions of PC Globe and PC USA for Macintosh, Apple IIs, Atari ST, and Amiga. PC Globe still doesn't have any competition in its niche: Kessler got to the market first.

—Steve Bergsman

Helping U.S. Business Speak In Foreign Languages



Robert Sprung's Boston-based firm specializes in technical translations.

Ours is an age when technology leaps across borders, while words come panting along behind. That truth is felt by everyone who opens the instruction booklet for some new foreign-made gadget, only to find it written in a language that bears but a fleeting resemblance to English. It's safe to assume that people in other countries have suffered the same frustration in reverse.

One man's frustration is another man's opportunity, as Robert C. Sprung is proving. Sprung, 28, has founded two

Boston-based companies, Harvard Translations and Marketscan Publications; both address the need for sophisticated translations of highly technical material. "We're in the business," he says, "of producing French legal documents and German user manuals."

His prices may seem high—ranging from \$50 to \$150 a page, depending on the complexity of the project—but the work is intensely specialized. For example, for one recent project, Sprung had to come up with a translator who was also "a practicing German attorney

who was familiar with software."

Sprung graduated *summa cum laude* from Harvard University, where he majored in Latin, Greek, and German. Then he went on to Cambridge University in England for a master's degree in French and German. He also knows Hebrew and Aramaic, the ancient language of the Jewish Talmud, and he is studying Japanese.

When he returned from England, Sprung became a financial analyst for Fidelity Investments, a big mutual-fund company. "Two things struck me," he says of that experience. "First, that my real interest was in language, and second, that I was not cut out for a white-collar job in corporate America."

Sprung, who had been a free-lance translator in college, started Harvard Translations in January 1988; he was its sole employee. Now he has six employees in his office (including a newly arrived Russian specialist), five translators working for him full time outside, and a global network of highly specialized contract translators.

Launching his company "wasn't difficult at all," Sprung says. "I took a few ads, and I did a lot of networking. I wanted people to view us as a consulting firm that understands the technical issues and the company's concerns."

To enhance that image—and to keep his staff's translation skills honed—Sprung started a second company to publish *Marketscan Europe*, a newsletter based on translations of European high-tech publications.

Sprung knows well that few Americans share his enthusiasm for studying foreign languages. But without more attention to languages, he warns, U.S. business could find itself crippled in dealing with foreign competitors.

—Michael Barrier

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Tapping The Education Market

By Joan C. Szabo

Woodland Public School sits among golden wheat fields and grazing cattle in northeast Colorado. Its 108 students come from the 50 families who live in the area around Woodrow, and the grades run from kindergarten through high school.

Meeting the needs of such a small but widely varied student body has posed problems. One example: The school cannot afford to hire full-time teachers for the handful of older students who asked for classes in foreign languages.

In the past, that meant that those students went without the instruction

they sought. Now, however, foreign-language courses, including Japanese, are available at Woodland. The school has become a client of TI-IN Network Inc., a private satellite company that provides educational courses to schools that want to expand their curricula to meet the needs of today's students. Based in San Antonio, Texas, the company serves more than 6,000 students in nearly 1,000 school districts in 29 states. Distant learning systems are used predominantly in rural and small communities.

TI-IN Network is just one firm amid a fast-growing number of enterprising companies that are developing and mar-

keting innovative products and services for the education market.

Opportunities in this area are expanding in line with concern about the quality of American education and the necessity for major reforms if U.S. schools are to meet the needs of individual students and the nation at a time of increasing global competitiveness.

The reform effort is taking many routes toward the goal of equipping young people to meet the challenges of an increasingly complex work world. Those routes include attempts to reduce dropout rates, stimulate student interest in math and science, increase parents' involvement in their children's

PHOTO: © BOB CALDWELL



Amid growing demands for education reform, enterprising companies are developing and marketing innovative products and services for the education market—and opportunities in this area are expanding.



education, ensure that schools have sufficient resources, and overhaul system structures, including management and administrative procedures.

In the field of resources, one of the efforts aimed at upgrading student performance is local-level purchase of products and services geared to educational improvement. Such purchases typically include computers and related software, creative textbooks, and the services of consultants with special abilities to help schools meet their expanded goals.

Many entrepreneurs have spotted the niche market for educational materials and supplies, now estimated at \$2 billion and expected to grow as education-reform efforts take hold and the student population increases. Those entrepreneurs are learning, however, that although the market offers opportunities, it also presents challenges that differ from those that arise in selling to traditional consumer markets.

To market successfully to today's educators, experts say, entrepreneurs must be well-versed in the field of education and be able to address the needs of teachers and children. Even then, "educators are reluctant to push into a new area or buy a new product until some school district somewhere has piloted it and put it in place," says Steffen Palko, a businessman who is a school-board member in Fort Worth, Texas. The product or service must achieve some measure of success before school districts will buy it, he says.

The education market can be viewed as a series of individual markets that often are built around the availability of government funding sources, says Nelson Heller of Northbrook, Ill., publisher of *The Heller Report*, a monthly

Entrepreneurs' approaches include courses by TV from Lloyd O. Otterman's TI-IN Network. Inset: Students phone TV teachers.



PHOTO: T. MICHAEL REZA

Educator Jerold Bauch's computerized recordings link teachers and parents.

newsletter on educational technology and telecommunications markets. As an example, he cites the federal government's program for disadvantaged children. This program has helped spawn several \$50-million instructional-technology companies, he says.

The financial strains on the nation's school budgets also pose special challenges for those trying to tap the education market. Schools often can't afford innovative products and services.

Nevertheless, interest in new resources is expected to spur creative ways to finance them. For example, Palko suggests the possibility of "technology" bond issues to help Fort Worth schools buy computers, video equipment, and other products that can improve academic achievement.

Palko, an executive vice president of Cross Timbers Oil Co., in Fort Worth, helped launch an education-reform effort in his school district in conjunction with the city's chamber of commerce. The aim is to tailor Fort Worth's school-reform effort to the skills and requirements needed in real-world jobs.

School reform also is encouraging schools to search for grants and corporate donations or to spearhead fundraising efforts that help bring new goods and services to the children. Generally, the nation's school boards approve school budgets, but the school districts' administrators actually select the vendors and specific products. Teachers also make some spending decisions for purchases that generally cost less than \$100. In addition to school

COVER STORY

expenditures, parents are purchasing a vast array of products and services to help their children learn.

In the future, enrollment in public education is expected to increase substantially. The U.S. Department of Education estimates that from 1989 to 1995, enrollment for the six years of public elementary school will rise by 7 percent, while enrollment for the six years of public secondary school will increase by 10 percent.

In the technology area, annual school expenditures for computers, software, video equipment, and tapes total approximately \$1.3 billion, says Anne Wujcik, a senior consultant who specializes in the educational-technology market for Link Resources, a New York market-research company. She expects sales to reach \$1.8 billion by 1995. That figure, she says, could reach about \$2.7 billion by the middle of the 1990s if

public schools start to make greater use of technological resources.

Education reformers believe the new technologies will gain greater appeal as their potential is understood more fully. Lewis J. Perelman, a senior research fellow at the Hudson Institute

in Alexandria, Va., says that existing technology, such as computer-assisted instruction, can at least double the productivity of teaching. The Hudson Institute is a nonprofit policy-research center headquartered in Indianapolis.

Perelman believes school restructuring ultimately will require a different set of budget priorities to provide for the purchase of more technology and innovative products. He argues that replacing the governmental framework that drives the public schools with a system driven by markets, coupled with the ability of parents to choose the schools their children attend, would offer entrepreneurs even greater business opportunities in the future.

Innovative entrepreneurs will develop ways to seize those opportunities as the TI-IN Network has done for schools like Woodland Public in Colorado. With TI-IN, a school can add to its curriculum as many as 25 high-school courses. Certified teachers conduct the classes



PHOTO: ©BART BARTHOLOMEW

Consultant Lee Canter, left, researched classroom-management techniques and developed a discipline program that became popular among teachers.

from two broadcast studios in the U.S., and satellites beam the instruction to students across the country. The studios are located in San Antonio, Texas, and Macomb, Ill. Next year, TI-IN will be available via cable television.

Lloyd O. Otterman, TI-IN's chairman and chief executive officer, says the network was launched in 1985 to help support the nationwide education-reform drive. Reform has boosted de-

mand for more math, science, and foreign-language courses, but there are too few trained teachers to staff classes in these subjects at individual schools, particularly in rural areas, he says.

With TI-IN, students in a number of different locations take the classes at the same time. A cordless telephone, which can easily be passed around the class, enables students to ask questions



PHOTO: ©MICHAEL KEZA

Pupils master skills with Jostens Learning Corp.'s computer-based system.

Many entrepreneurs have spotted the niche market for educational materials, now estimated at \$2 billion and expected to grow.



An "Educational" Preschool Franchise

of the teachers in remote locations. Each class has an assistant, called a facilitator, who works for the school. He or she administers exams, maintains discipline, and keeps the equipment functioning properly.

The cost of enrolling one student per course per semester is \$240 or \$290, depending on the course selected. The one-time cash outlay for the satellite dish, the phone, and other equipment is a good deal more. David Cockerham, superintendent of the Woodland Public School, says the initial equipment investment for his school was about \$25,000—substantially less than hiring a full-time teacher. TI-IN says that the initial equipment costs with cable will be dramatically lower than those for satellite technology.

TI-IN now employs 80 people, and revenue has increased from \$500,000 in 1985 to over \$12 million in 1990. Venture-capital funds have provided the cash needed for creation of the network and for equipment, says Otterman.

Another entrepreneur has applied technology to the effort for greater parental involvement in education, which many educators believe is critical to improving student performance. Jerold P. Bauch developed the Transparent School, a computer-based telephone-recording system that allows teachers to communicate daily with parents. The teacher records a message describing the highlights of the school day, plans for the next day, and the details of the homework assignment. Parents can listen to the message by dialing from a touch-tone telephone. The system also allows parents to leave messages for teachers.

Bauch, director of the Center for Parenthood Education at Vanderbilt University, in Nashville, Tenn., says that Transparent not only encourages greater parental involvement in a child's education but also helps teachers communicate more effectively with a larger audience of parents.

Bauch developed and researched the concept in 1987, using "off-the-shelf" technology. Now four or five vendors have modified their own voice-mail technology to fit his model and are marketing the system to schools. As a result, about 27 schools from New Jersey to Florida to Colorado are using the model, says Bauch. The start-up cost ranges from \$5,000 to \$10,000.

Bauch's research shows that in most of the schools using the system, about

The Primrose Schools had been booked up almost since Marcy and Paul Erwin opened their first "educational child-care" school in Marietta, Ga., in 1983. More than 53 percent of mothers with children under the age of 3 were working outside the home, so the Erwins projected that business could only get busier.

But as entrepreneurs in an education market, the Erwins had no solid examples of success to follow. Their puzzle was how to expand their enterprise and preserve its high quality and client satisfaction.

Child-care franchises operate nationally, but few if any include a curriculum of Spanish and computer education for preschool-age children. Not many copy the formal elementary-school setting of grouping children by age, and almost none promises low turnover among teachers.

With these Primrose Schools offerings, the Erwins were supplying something new that working parents want more and more for their children—something beyond idle, supervised playtime. But Marcy and Paul Erwin were on their own in looking for ways to expand Primrose.

They didn't want partners, investors, or even managers. They mostly wanted "couples or individuals who have the ambition to own their own business," says Marcy Erwin, couples who would "offer the same protective measures that Paul and I have invested in our company."

Franchising, though unproven in their market niche, seemed the only option. After a "large financing effort," Primrose Schools' first franchise opened in 1988 in Alpharetta, Ga. Christine and Richard Coad, who both left careers in retailing and marketing to open the first franchise, recently have broken ground to open another Primrose School because they find the franchise format agreeable to the education market. "It's very workable," Christine Coad says. "You just concentrate on building your business."

The company, based in Marietta, now has 11 franchises; the Erwins own three schools. About 1,400 children, ages 6 weeks to 5 years, are enrolled in Primrose Schools each year. Tuition at Primrose is \$90 to \$100 a week for infants and \$80 to \$85 for toddlers and preschoolers. Marcy Erwin says some children are enrolled, on paper, before they are born.

Marcy Erwin developed the Primrose curriculum from a preschool formula

developed by her family's child-care business 20 years ago, in the Chicago area. She says the formula emphasizes "the strength in each child" and does not "box up" generic lessons that each child must digest.

At some point, though, for the franchise to grow, Marcy Erwin had to entrust her personal formula to others. "Delegation is the hardest learning curve," she says. She and her husband assembled an 800-page training manual to which school owners are required to conform. Each month, owners get a package of specific lesson plans, relevant news articles, and a "forum" franchisee newsletter. Keeping all the schools running alike—the stamp of most franchises—seems a realistic goal, Marcy Erwin says. "It's all there," she says of the support materials. "Why wouldn't you do it?"

Start-up costs for a Primrose franchise are about \$89,500, including the



PHOTO: T. MICHAEL KEZA

Early learning experiences at one of Marcy and Paul Erwin's schools.

\$48,500 franchise fee, which is collected up front. The royalty is 7 percent of annual gross revenues, which average \$500,000 to \$600,000 at each franchise. After paying the royalty, the franchise owner nets 20 to 25 percent of the revenue, the Erwins say. They expect the whole Primrose operation to gross \$7 million this year.

"We feel the possibility that Primrose could be nationwide," Marcy Erwin says. "But it's not something we have a calendar to do."

However big the business gets, with more than half of mothers working, Primrose probably won't have trouble staying booked.

—Bradford A. McKee

COVER STORY

one-third to one-half of the parents use it every day. "Children's grades go up, their attendance improves, and parent satisfaction is much higher," he says.

Advance Voice Technologies of Nashville is one of the vendors marketing the system. It is a small firm with sales of just under \$5 million a year. The company's president, Michael Frank, says that in the next 10 years, he expects 80 percent of all schools to use a system similar to the Transparent School model to help improve communication between home and school.

Frank says that schools are finding it difficult to come up with the funds needed to purchase the system, but he points to two routes that are making it possible. NASCO 21, a Springfield, Tenn., company that helps educational institutions launch fund-raising efforts, has established a program that helps schools and parents raise money to buy

currently employs 100 full-time as well as part-time people.

A trained family counselor, Canter started Lee Canter & Associates in 1975 with his wife, Marlene. Having done extensive research on successful classroom-management skills, he urged his wife, a special-education teacher, to try them in her class. She did, and word of her success spread throughout the school. Teachers began asking her what she was doing in her class, Canter says, and he offered to explain the techniques to them. Soon teachers at neighboring schools began asking him to discuss his "assertive-discipline" program, and the business was born.

The company now conducts 1,000 seminars a year for educators and parents. A one-day training seminar in assertive discipline costs \$25 per teacher.

Canter says assertive discipline is a competency-based approach to class-

example, the consequences may include sitting at a table alone, being last in line, or going to the principal's office.

The recent school-reform movement has dramatically affected his company, Canter says. "There is a renewed interest in how we can help schools help children succeed." In the past three or four years, he says, the firm has doubled the number of workshops it offers,

Lessons From The Teachers' Room

The Teachers' Room is not the store that owner Joan Lamport had imagined. She dreamed of owning "a San Francisco bookstore with Mozart on the tape deck," she says.

Instead The Teachers' Room, in White Plains, N.Y., resounds with the voices of children, parents, and teachers. And when there is music, Lamport says, "it will turn out to be [the singer] Raffi or some kid-oriented song."

The decor, too, is a far cry from the sober atmosphere of a San Francisco book mart. The "cluttered chaos" Lamport points to is a colorful blend of a school's supply room, a toy store, and a children's bookstore, crowded into 2,000 square feet.

Lamport spent 10 years as a teacher and consultant in reading before opening the store in 1978. It then sold teachers' supplies, but soon she added toys and books, as her clientele expanded to include parents and grandparents.

Today Lamport stocks about 7,500 teacher supplies, such as resource books, bulletin boards, and duplicating masters. These products account for about two-thirds of the store's business. The turnover of books and toys is so frequent that she doesn't bother counting them.

Lamport is particular about what she stocks. She will not sell popular books that she thinks have inferior educational value or licensed items that capitalize on well-known characters but do not challenge children.

Teachers' stores have been growing in popularity for the past 15 or 20 years, partly in response to the bureaucracy of school systems. "The wheels of the school system run very slowly," Lamport says, and "when a teacher wants to do a book with a kid, the



PHOTO: T. MICHAEL KEZA

Publisher L. Wayne Mavor markets science-activity books for students.

the Transparent School model. Frank also is trying to generate support for Bauch's model among corporate sponsors that would donate the money to put the system into schools.

Bauch says that his system often gains enthusiastic converts by word-of-mouth from one local school to another.

Word-of-mouth and a solid reputation are two factors that educational consultant and publisher Lee Canter says have helped make his Santa Monica, Calif., business grow from a two-person company 15 years ago to one that

room management. "The teacher knows at all times the type of behavior he or she wants from the students." This involves teaching the students the desired behavior and taking positive action to reinforce and motivate students to engage in the appropriate behavior. For example: "I see that Jason went back to his seat and got right to work. Good work, Jason."

If teaching and reinforcing are not effective, the teacher must have a systematic plan of disciplinary consequences that students must follow. For



and it also has doubled its staff size.

His company's growth in the education market is a classic example of how an enterprise can succeed by offering a service or product targeted to specific needs of schoolchildren and their parents, Canter says.

The same fundamental approach helped Computer Curriculum Corp. (CCC), in Sunnyvale, Calif., grow from

a small, computer-based learning company to one that recently was purchased by Paramount Communications Inc. CCC now is part of the education group of Simon & Schuster, the publishing arm of Paramount.

CCC was launched in 1967 by Patrick Suppes, a professor at Stanford University and a pioneer in the development of software-based curriculums, along with

Richard C. Atkinson, now chancellor of the University of California in San Diego. Suppes developed a computer-assisted instruction program that individualizes learning for each child.

Approximately 3,000 schools across the country use the system, which delivers instruction in mathematics, science, reading, language arts, and computer science. The system keeps track of each child's mastery, focuses on the student's weak areas, and raises instructional levels as the student learns. It also gives students immediate feedback and offers teachers a readout of each student's status and progress. Recent advances enable a stand-alone computer to operate CCC's complete system, which includes graphics and an audio system. The computer talks to the children through the use of headsets.

Another company in the field of computer-based learning is Jostens Learning Corp., a subsidiary of Jostens Inc., the largest class-ring manufacturer and yearbook producer in the country. The San Diego-based learning subsidiary was formed in 1989, when the parent company merged two smaller firms it had acquired. These two small firms provided Jostens with the hardware and software needed to market its computer-based learning system.

H. William Lurton, chairman and chief executive officer of Jostens, says that sales for Jostens Learning will total \$100 million this year. Jostens Learning, says Lurton, has been growing at a rate of about 30 percent a year—much faster than the rest of the company, which has been selling to schools for 70 years.

The subsidiary offers a number of different computer-based learning systems, including one for students who are at risk of dropping out of school. The program allows students to master nine essential life skills: listening, mathematics, managing money, reading for information, finding and using information, interpreting graphic information, organizing and presenting information, evaluating information and making decisions, and filling out forms. Jostens also has developed a take-

teacher wants to do it very quickly."

Teacher-supply stores enable teachers to get books and other materials sooner than their schools can buy them. The teachers often spend their own money and may or may not be reimbursed by the schools. The Teachers' Room is flexible in working with teachers. Says Lampport: "If you understand how schools operate... you roll with it."



Joan Lampport sells books and supplies for children, parents, and teachers.

Lampport and her sales staff—two full-time and two part-time employees—have all been teachers. Lampport says their experience enables them to give the customers the kind of help they need. When parents come in looking for something to help their children understand what they're reading, Lampport says, the salespeople must ask the right questions to get the kind of mate-

rial that will help those children.

Because of the recent emphasis of school curricula on teaching literature in the early grades, The Teachers' Room has increased its book inventory. The customers for these books include parents, teachers, and schools. At the same time, a side industry has grown in materials to show teachers how to use the books, what questions to ask, and what follow-up activities to do.

The national focus on science and mathematics has spurred a craze for teaching math using geometrically shaped blocks, coins, graduated beakers, and other hands-on products. Lampport is looking into stocking computer software.

The nonschool-oriented material has changed, too. Parents now buy materials to supplement their children's schoolwork as well as education materials for preschool children. Tape and book combinations are also popular, though Lampport cautions that they may not teach. She says the idea is "that if the kid's following, he's learning the whole words as he's hearing them," but, Lampport says, "the kid may be on the wrong page."

With the changes happening in education, Lampport sees opportunities for the development of businesses to supplement schools. She speaks of the growing number of at-home schools, the expected influx of drug-affected children in public schools, and the likely need for consulting and tutoring.

But Lampport believes the businesses should be run by people who have a background in education, something she feels has been essential in her store. And it must have worked, because she intends to open another store. The new store will be closer to New York City and will follow the same concept—a store for teachers and parents, with books, games, and teacher-oriented products. And presumably, its tape deck will not play Mozart either.

—Janet Lowenstein

As the national drive to improve education quality gains momentum, opportunities for creative entrepreneurs will grow accordingly.



home computer program so that students can work with parents on computer-assisted learning activities.

Former reading teacher Lynn Domenech says she began developing computer programs for students with reading problems when she found there were few such programs available to use with her own students.

Now Domenech runs her own company, Teacher Support Software, with her husband, Tony, also a former teacher. Launched in 1981, the Gainesville, Fla., company develops and markets reading and language-arts software geared to elementary and high-school students, especially those with reading problems. The cost of the company's individual software programs starts at \$60.

Conscious of the challenges teachers face with students who have trouble reading, Domenech recently developed an innovative software program for

students in danger of failing. First she interviewed them to find out what they would like to read, and then she set out to put together their wish list—stories that depict real-life experiences.

Her series, *Reading Realities*, is designed for students in grades seven through 12

who are reading at second-through sixth-grade levels. The program presents issues such as drugs, alcohol, cheating, pregnancy, and dropping out of high school.

Domenech says the company has "grown tremendously" since its first year, when it registered just \$30,000 in sales. She will not disclose the company's current annual sales, but she says that it now employs 13 people.

Domenech attributes the company's success partly to the fact that she and her husband, as former teachers, "care more about the kids we are trying to reach than anything else." In addition, she is in touch with teachers constantly to learn their reactions to software programs.

L. Wayne Mavor, president of Alpha Publishing Co., in Annapolis, Md., says he has found attending annual educational conventions a good way to make teachers familiar with his publications. The four-person company, which Mavor runs from his home, began marketing

and distributing hands-on supplementary science books for high-school teachers and students two years ago.

Mavor says he started with four science-activity books for high-school students. He then discovered that elementary and middle-school teachers also were interested in having similar books for their classes. So he developed a series of publications for those two grade levels, bringing the total number of books he markets to 16.

He says there is strong demand for the books because more and more teachers are trying to get students involved in hands-on science activities. Written by experienced science teachers and professors, the books cover biology, chemistry, earth science, physics, and marine biology. They include ready-to-use research activities and experiments and are self-contained so the students have all the information needed to work through an activity.

Despite the demand for the publications, the company finds that teachers often don't have the funds to pay for them. A teacher generally needs only one copy of the book because Alpha gives teachers permission to reproduce the student-activity pages and illustrations for home and classroom use.

Most of the publications cost less than \$40, and Mavor estimates that about 20 percent of the material the company sells is purchased with a teacher's own money.

Science often is ignored in elementary schools, Mavor says, because collecting and assimilating information on the subject is time-consuming. He says his publications eliminate that problem.

Alpha also is branching out with a new series of thinking-skills publications for use in elementary schools.

As the national drive to improve education quality gains momentum, opportunities for creative entrepreneurs will grow accordingly. Says businessman Steffen Palko of Fort Worth: "It is an explosive area for the future in terms of opportunity."

"But you just can't come running willy-nilly and say I have an idea I am going to throw at educators," says educational consultant Lee Canter.

The true test, he says, is the ability of the products and services to contribute to the ultimate goal—raising the nation's educational standards. ■



To order reprints of this article, see Page 57.

How To Reach The Education Market

Business people who are successfully selling innovative educational products and services to the nation's schools, teachers, and parents say the education market is a challenging one to reach. They offer these marketing tips:

- Make sure that what you are marketing truly addresses teachers' and children's needs. Educators prefer to have a product recommended to them by another teacher or school or to be shown evidence of its effectiveness through reports of pilot programs.

- Involve educators in the development, design, and sale of your product or service. Many entrepreneurs who are successfully reaching the education market are former teachers and principals, or they employ former educators in their businesses, often having them serve as consultants.

- Establish a reputation that proves the soundness and effectiveness of your product or service. Much business is generated by conversations among teachers, parents, principals, and superintendents.

- Identify government funding sources for specific entitlement programs. Chapter 1 of the Elementary and Secondary Education Act of 1965, for example, is a program that provides federal funds for disadvantaged students who are having trouble with reading and math.

- Find alternative sources of financing for your product or service. Many corporations are willing to provide the nation's public schools with funds to purchase new technology and innovative programs.

Keep in mind, however, that "corporate grant funds are a pretty hard way to build a business because they are erratic," says Nelson Heller, publisher of the *The Heller Report*, a monthly newsletter on educational technology and telecommunications markets. Nevertheless, he says, these funds are good for launching pilot tests of your product or service and for gaining visibility.

- Attend education-association conventions to make your product known and to talk with educators. This also is a good way to find out about educators' changing needs.

—Joan C. Szabo

HEALTH CARE

Mandates Reduced

By Roger Thompson

Five states have taken steps this year to cut the costs of group health insurance for small companies that have been priced out of the market.

Laws passed in four of the five states—Virginia, Missouri, Washington, and Florida—exempt small firms from most state requirements to provide certain types of costly medical services, such as chiropractic care or alcoholism rehabilitation.

In these states, insurers may now offer reduced-mandate or mandate-free basic health-insurance plans, which are expected to cost 10 to 40 percent less than conventional health plans.

Taking a different approach, Connecticut left all of its 29 mandates on the books but capped the amount that insurers must pay for services rendered by health-care providers.

The states' actions demonstrate a new sensitivity among lawmakers to the impact of mandates on the cost of health plans, particularly for small companies. Because mandates apply only to policies sold by insurance companies, most large and midsize businesses sidestep mandates by converting to self-insurance—essentially paying their own health claims. But few small companies can afford to self-insure. As a result, those who can least afford mandates are expected to bear their full expense.

The recently enacted legislation reducing mandates also marks a turning point in the proliferation of health-benefit mandates imposed by the states. Throughout the 1980s, legislators were more concerned about expanding health-care coverage than about the rising costs of such coverage.

As a result, state mandates prescribing specific health benefits more than doubled, and they now number 816, according to the Health Insurance Association of America (HIAA). Each state typically has 10 to 15 mandates, and some have more than 30. (See the chart.)

The most common mandates require coverage for newborns, alcohol and drug abuse, psychiatric hospitalization, psychologists' visits, routine dental care, and treatment by chiropractors and podiatrists. Some cover acupuncture, hair transplants, and treatment by

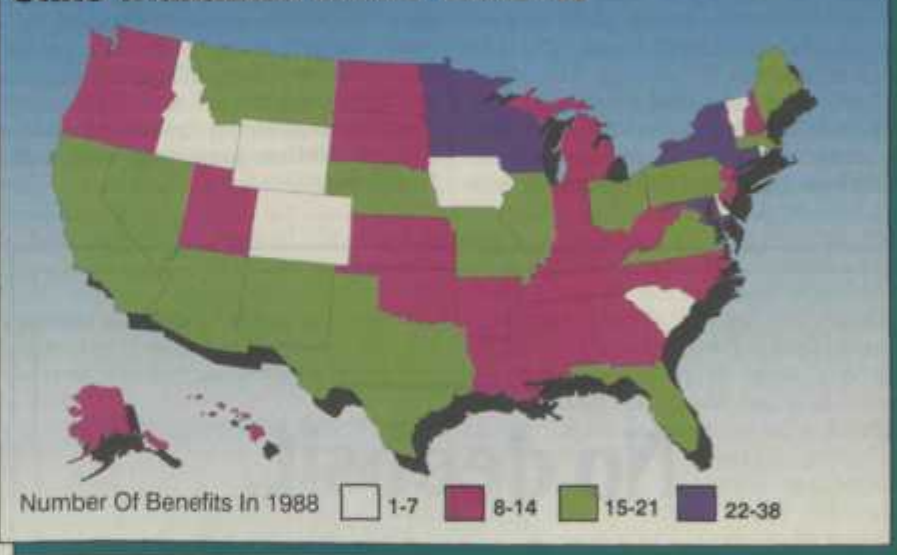
naturopaths (specialists in herbal medicine).

All these mandated services drive up costs, putting health insurance beyond the financial reach of many small companies. "The biggest cause of lack of insurance for employed people is that it costs too much," says Greg Scandlen, director of state services research for the Blue Cross and Blue Shield Association in Washington, D.C.

Several state legislatures have scaled back costly health-coverage mandates for small companies.

Virginia. The reduced-mandate law, effective July 1, applies to companies that have fewer than 50 employees and have not offered health insurance in the past year. Eligible companies are exempt from the state's 24 mandates, including coverage for the services of chiropractors, optometrists, physical therapists, podiatrists, professional counselors, and psychologists. The law also waives coverage for treatment of

State-Mandated Health Benefits



SOURCE: HEALTH INSURANCE ASSOCIATION OF AMERICA

Now, however, "there is a growing awareness among state lawmakers that mandated benefits are not a free lunch," says Jon Gabel, HIAA's research director. Nearly half of the 14.4 million working uninsured are employed by companies with fewer than 25 workers.

The smaller the company, the greater the chance that it provides no employer-sponsored health plan.

Cutting back on mandates, however, is no panacea for small employers or their workers. "Our research indicates that only one in six employers who don't now have health insurance would purchase it in the absence of mandates," says Gabel. "But eliminating mandates is a step in the right direction."

Here is a summary of what the states have done this year concerning mandates:

mental or emotional disorders and alcohol or drug abuse. These mandates increase health-insurance costs in Virginia by an estimated 12 to 16 percent.

But the new law does not exempt small employers from all mandates. It requires that they offer a minimum of 30 days of hospitalization annually; comprehensive prenatal, obstetric, and well-baby care; and at least two physician visits a year.

Under the law, Blue Cross and Blue Shield of Virginia has designed a new health-insurance package for small employers that will cost about \$85 per month for single coverage and \$225 for family coverage, compared with \$140 and \$350 respectively for standard comprehensive coverage.

Missouri. Using the Virginia legislation as a model, the legislature exempted firms with 50 or fewer employees

HEALTH CARE

from all state mandates effective Jan. 1, 1991. It also exempted insurers from a state requirement that they pay claims from all "duly licensed providers." This means that insurance companies writing policies in the small-group market may refuse to cover the services of psychologists, optometrists, physical therapists, chiropractors, social workers, or any other "duly licensed" health-care provider. The reduced-mandate provisions were attached to a major bill creating a state-wide medical high-risk pool. Insurers have not yet calculated the legislation's likely impact on premium costs.

Washington. The legislature exempted employers with fewer than 25 workers from the state's 18 health-insurance mandates. Small employers are simply required to offer unspecified levels of hospitalization and physician care, plus coverage for dependent children. Thus, insurance companies have maximum flexibility to tailor health plans to meet employers' individual needs. The law took effect June 7.

Under the law, Blue Cross and Blue Shield in Washington has indicated that it intends to offer a prototype basic health-care package for a monthly pre-

Our research indicates that only one in six employers who don't now have health insurance would purchase it in the absence of mandates. But eliminating mandates is a step in the right direction.

—Jon Gabel,
Health Insurance Association
of America

mium of about \$60 per worker, compared with a typical cost of \$90. The plan would include coverage of surgery, chemotherapy, and other professional services; hospitalization; maternity care; inpatient and outpatient chemical-dependency treatment up to a \$10,000 lifetime maximum; and home health care.

Florida. The legislature exempted employers with 25 or fewer workers from most of the state's 18 health-care mandates. However, five mandates remained in force, even for small companies; they include mammography screening, services of chiropractors, routine newborn and infant care, and a provision that forbids insurers from dropping handicapped children from coverage after age 21, provided the child remains a dependent. The law takes effect Oct. 1, 1990. Insurers have not yet calculated the law's probable impact on premiums.

Connecticut. Rather than prune the state's numerous mandates, the legislature enacted a bill that permits insurers to pay doctors and hospitals at 75 percent of the Medicare reimbursement rate for specific procedures. That amounts to about 58 percent of the "usual and customary" fee level. This provision applies only to employers who have 25 or fewer workers and have been without health coverage for the previous two years. Doctors, however, will be permitted to bill for the difference between the Medicare reimbursement and the doctor's charge if the patient's income exceeds 200 percent of the federal poverty level. Policies written under the law are considered experimental, and they may last for no more than three years.

Another key provision establishes a reinsurance pool funded by health insurers of small groups. The pool will spread the cost of claims from high-risk employees. The law also prohibits insurers from canceling coverage because of poor claims experience or excluding workers who are considered high risks.

The law took effect July 1, but it may be sometime in the fall before insurers and the state agree on how to price group health care under its provisions.

As of early June, three other states—Illinois, Michigan, and New Jersey—were considering laws to cut back on state health-benefit mandates for small employers. And Minnesota, with 38 mandates, enacted a law allowing insurers to write mandate-free policies for small businesses, but only after the policies are approved by the legislature. It was not immediately clear how, or whether, the law could be implemented, said Woody Eno, a spokesman for HIAA.

Eno expects more states will roll back health mandates for small firms in coming years. "State budgets are tight right now, and this is one thing that they [lawmakers] can do to expand health-care coverage to the uninsured without having to spend any money." ■

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ENVIRONMENT

Environmental Activists Inc.

By Bradford A. McKee

At its breweries in Fort Collins, Colo., and Jacksonville, Fla., Anheuser-Busch Companies Inc. employs a waste-treatment process that lets it reuse agricultural byproducts created in the brewing process. Rather than tackle the leftover substance as a "waste problem," the company turns the material into a "nutrient liquid" that can be applied directly to farmland. The nutrient is especially good for growing hay and alfalfa, says John L. Stein, director of environmental engineering at Anheuser-Busch's headquarters, in St. Louis. "It's all organic, rich in carbon, nitrogen, and trace nutrients."

At the end of the brewing process, the waste sludge that remains is no longer taken to a landfill, Stein says, but instead is mixed with sawdust to create a nutrient-rich fertilizer. The company reuses about 50 tons of this waste material each day and sells the composted material to another company. The sludge is "excellent for landscaping," Stein says.

That program is just one example of how U.S. businesses are providing solutions amidst fast-growing public concern over environmental problems.

Many companies are going beyond minimum compliance with federal, state, and local environmental regulations and are undertaking imaginative, ambitious programs of environmental stewardship. Officials at companies large and small say that environmental concern saves their firms money, preserves natural resources, and improves consumer perception of a business.

Richard L. Leshner, president of the U.S. Chamber of Commerce, notes that companies with strong environmental programs are understandably proud of them: "They get their message out because they think it does enhance their competitive advantage. It's so much better to take the initiative and do a whole lot more than what's required by law, rather than wait for new laws to overregulate things."

Prior to assuming his Chamber post, Leshner was founding president of the National Center for Resource Recovery, which was formed by brewing, soft-drink, plastics, packaging, and other companies to stimulate recycling or energy conversion of solid waste.

At the very least, companies should engage in environmental self-scrutiny, says Mary Bernhard, manager of environmental policy at the U.S. Chamber.

As an example of environmental responsibility, she cites the "Responsible Care" program of the Washington, D.C.-based Chemical Manufacturers Association. Member companies agree to conform to industry-established safety codes. Companies that won't sign the agreement cannot join the association. "Keeping members out—that's a big step for a trade association to take," Bernhard says.

Here are just a few of the success

Recycling aluminum is one of several ways that Anheuser-Busch shows environmental commitment.

Many U.S. companies carry out ambitious programs of environmental stewardship. Here are some of their successes.

stories from the environmental-stewardship movement in business:

Anheuser-Busch: A Broad Approach

In its brewing, baking, and entertainment businesses, Anheuser-Busch demonstrates its environmental commitment. In addition to reusing raw materials and byproducts, the company recycles aluminum packaging and helps protect wilderness areas. "A commitment to conservation, the environment, and the preservation of wildlife is an important part of the history of Anheuser-Busch," says the company's chairman and president, August A. Busch III. He ties his company's environmental commitment to the importance of quality in a business. He says that a "concern for quality must include safeguarding the environment."

Anheuser-Busch recycles much aluminum; this year it expects to bale about 475 million pounds of used aluminum cans. At hundreds of aluminum-collection centers around the country, Anheuser-Busch buys back aluminum from consumers at 35 cents a pound

and resells the metal to aluminum fabricators at a London Metals Exchange price of about 50 cents a pound.

"It takes seven kilowatt-hours of electricity to make a pound of new aluminum," says Joseph L. Goltzman, president of Container Recovery Corp., Anheuser-Busch's wholly owned subsidiary devoted to recycling aluminum. He says recycling "is a cheaper replacement for new [aluminum] ingot."

The world's largest brewer also has actively supported wildlife conservation. In 1947, the Busch family donated \$70,000 to the state of Missouri to help purchase the 7,000-acre August A. Busch Wildlife Area. Anheuser-Busch is a longtime supporter of Ducks Unlimited, helping raise millions of dollars for the organization's efforts to purchase and protect wetlands.

The company has joined the state of Maryland in its "Save the Bay" campaign, a drive to



ENVIRONMENT

eliminate pollution from Chesapeake Bay. Anheuser-Busch is tying the campaign to its Budweiser beer advertisements that air in the Chesapeake Bay region, says Michael M. Wolfe, director of industry and consumer affairs for the company.

Recently, Anheuser-Busch purchased Sea World, a chain of four theme parks dedicated to the preservation of aquatic life, from Harcourt Brace Jovanovich, an Orlando, Fla.-based publishing company.

At its Orlando location, Sea World's marine scientists rescue turtles and manatees—large, docile, freshwater mammals related to elephants—that have been injured by boat propellers. Sea World laboratories also are playing an important role in the preservation of the Guam kingfisher, a "very endangered" bird species. According to Sea World's general curator, Frank Murru, the kingfisher has been endangered on its home island of Guam by an egg-eating snake. Only 60 pairs of the kingfishers survive.

For a facility to carry out costly preservation projects such as these, ownership by a major, environmentally concerned corporation often is crucial. "Anheuser-Busch's support makes these capital projects for conservation possible," says Nicholas Gollattscheck, a Sea World spokesman.

Minnesota's 3M: The "3P" Program

3M Corp., based in St. Paul, Minn., began a comprehensive environmental initiative 15 years ago. The company calls it the Pollution Prevention Pays program, or 3P. The program involves every member of 3M in the corporation's effort to build an ecologically aware company. Employees from the top down suggest actions that 3M can take to eliminate or reduce emissions. The company seeks to meet, if not surpass, federal pollution-control requirements by revamping products, changing production processes, redesigning equipment, and reusing materials. Since the 3P program was begun, the company has undertaken more than 2,500 projects to reduce pollution.

For 3M to consider an employee's idea, the idea must meet specific criteria. It must eliminate or reduce a problem pollutant; it should involve more efficient use of energy and raw materials; it must introduce a technical innovation of some kind; and it must present a financial incentive for 3M.

One 3P initiative at a 3M plant in

Alabama saved the company \$800,000 in construction costs for a facility to treat waste water. A new process for reusing the water to be treated allowed the company to scale back the scope of the construction.

Another 3P project eliminated much of the excessive resin spray that arose from a particular manufacturing process; the excess resin required special



Battery-powered cars like this experimental General Motors model someday could cut car emissions.

incineration. The modification of the process has saved the company \$125,000 a year.

"Air pollution is a particular challenge to 3M because of the kinds of products [the company] makes," says Robert P. Bringer, 3M's vice president for environmental engineering. Goods such as adhesive tape and sandpaper require the use of solvents, which can become airborne in the manufacturing process if they are not captured.

In addition, Bringer says, any emission-reduction credits received by 3M will not be traded or sold to other companies, as allowed under law. Rather, the company will return any unneeded emissions credits to state or local agencies that look after air quality. (Companies earn such credits by falling below federal emissions ceilings. Any "extra" emissions allowances not "used" can be traded or sold to other companies in the same air "shed," or air-quality-attainment zone.)

In New Jersey, 3M has reduced its emissions by 1,000 tons a year. In Los Angeles, emissions totaling 1,050 pounds a day are prevented from reaching the atmosphere.

Dow And Huntsman: Clean Parks

Two chemical companies have joined forces with the National Park Service to help preserve natural areas. In April,

Huntsman Chemical Corp., based in Salt Lake City, and the Dow Chemical Co., based in Midland, Mich., announced their "partnership with the parks." In cooperation with the U.S. Department of the Interior, the companies' initiative will enable visitors in certain national parks to recycle the disposable glass, plastic, and aluminum that they bring into the parks.

The program will be tried out in Maine's Acadia National Park, the Great Smoky Mountains National Park in Tennessee and North Carolina, and Grand Canyon National Park in Arizona.

The two companies have put recycling bins in the parks, and they will supervise collection, transportation, and recycling of the materials.

Dow and Huntsman also have developed exhibitions, publications, and park programs to promote recycling. Jon M. Huntsman, chairman and CEO of Huntsman

Chemical, says the initiative should bridge the public's gap between thought and action in recycling. "Many Americans know that recycling is a solution to the nation's solid-waste problem," Huntsman says. "This program will give them incentive to participate in it." Dow's president and CEO, Frank Popoff, concurs: "Demonstrating the importance and feasibility of recycling is the best way we know to encourage a recycling ethic."

California's Unocal: Cash For Cars

In an unusual and expensive recycling program, Unocal Corp., a petroleum company based in Los Angeles, has begun a program to scrap and recycle 7,000 pre-1971 automobiles registered in the Los Angeles area; the Los Angeles Basin has one of the worst air-quality problems in the U.S. By paying \$700 apiece for the old cars, which emit 15 to 30 times the exhaust of 1990 models, Unocal hopes to "strike at the heart" of air pollution in Los Angeles, says Richard J. Stegemeier, president and CEO of Unocal.

The program, called the South Coast Recycled Auto Program, or SCRAP, will cost Unocal more than \$5 million. "We want to demonstrate ways of reducing smog that are efficient and cost-effective," Stegemeier says. The old cars will be turned over to a scrap yard for dismantling, and some of their parts will be recycled.

General Motors: Making An Impact
The General Motors Technical Center,

an automotive research laboratory in Warren, Mich., announced its tentative plans to take a different approach to reducing auto emissions: Instead of eliminating old cars, GM is developing an electric car called Impact. According to GM officials, Impact's acceleration performance—zero to 60 mph in eight seconds—"rivals cars powered by internal-combustion engines" and would suit most urban drivers.

"The public generally perceives electric vehicles as slow-moving, similar to golf carts," says John S. Zwerner, executive director of advanced products for GM. "The Impact shatters that perception."

Impact has a range of 120 miles at average highway speeds of 55 miles an hour.

With current battery technology, operating costs of the Impact in an urban area would be double those of a gasoline-powered vehicle, the company reports. But extensions of battery life would make Impact more competitive, and a substantial increase in gasoline prices could make the electric car more economically attractive than one using gasoline, GM says.

If the electric car is to help improve the environment, adds GM Chairman Roger B. Smith, the substantially increased supply of electricity needed to power a sizable fleet of electric vehicles must come from an efficient, clean source of energy. "If we try to do it all just by burning more fossil fuels, we'll be right back at square one," he said.

Kitzing Inc.: Tackling Trash

A small company in Chicago has adopted an alternative to tossing trash into landfills. Its new move cut the company's waste-hauling costs and even turned a profit for the firm.

Kitzing Inc., a trade-show marketing firm with about 80 employees, just received its first check, for \$46, for the 1,150 pounds of recyclable paper it saved over three months. Kitizing is typical of many small companies that can't undertake major environmental actions but show their concern with the environment by recycling paper.

Geneva Currin, an assistant purchaser for the company, says she and a few co-workers had been discussing environmental matters when it dawned on them to start a recycling program for the company. Currin called a local recycling company, which provided the large bins for collecting the paper. Smaller containers are placed beside employees' desks, next to their trash cans, for saving up daily reusable refuse.

As easy and immediate as the arrangement was, it met some resistance, Currin says. "At first, I had to twist



PHOTO: RICHARD DERE

Discarded paper looked profitable to Geneva Currin of Kitizing Inc.

people's arms," she says. "I would walk by their offices, and if I saw recyclable paper in the trash can, I'd either take it out, or ask them to take it out" and put

it in the recycling bin.

The company's president, Lona Kitzing, admits that she hadn't been in the habit of recycling, but she's trying. "Sometimes some [recyclable] things slip through, but it's a behavioral change," Kitzing says. "If we do it for a while, we'll get used to it."

Currin says some co-workers didn't instantly see the benefit of the recycling effort. But now, she says, the company saves the cost of hauling away the waste.

Environmental consciousness doesn't happen all at once, not with individuals or businesses of any size. Anheuser-Busch began its first initiatives more than 20 years ago, for example.

Now the company sees that it has the influence to inspire the uninspired, by talking to its consumers about the effects of pollution and the benefits of using materials again and again. Even when consumers stand to make some money, such as getting cash for old aluminum cans, they must be reminded. In trying to motivate people to become recyclers, says Anheuser-Busch's Goltzman, "you've got to get different people with different hooks." ■

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NB-08/90

Women In Business

Ideas, insights, and information to help women compete and succeed in the marketplace.

RECOGNITION

Courting Women By Honoring Them

By Anne Merick

In a 1982 telephone survey of companies in the Lansing, Mich., area, business leaders were surprised to discover that more firms than they had expected were run by women.

But it's no surprise that today, just eight years later, the percentage of women members in the Lansing Regional Chamber of Commerce has more than doubled—from 9 percent to more than 20 percent—and the number of businesswomen on its 28-member board of directors has risen to eight from one. The credit for this increase in female involvement goes in no small part to Lansing's "Athena" program, an awards project designed to recognize outstanding businesswomen in the community.

The Athena award, now part of a national program, was conceived by Martha Mertz, an Okemos, Mich., real-estate developer who in 1982 was the sole businesswoman on the chamber's board. She discovered that in the 70-year history of the Lansing chamber, only one woman had ever been honored for her business leadership. "I felt most women didn't have time to wait that long again," says Mertz.

She also felt that her organization was not a network only for businessmen. The world was changing, she reasoned, and if women who owned businesses were not involved both as members and leaders in the chamber of commerce, they were missing out.

In 1985 Mertz was elected president of the Lansing Regional Chamber, and the following year she herself won the award she had created.

Mertz looked to Mount Olympus for her inspiration and chose the Greek goddess Athena as her model. The daughter of Zeus, Athena embodies the

virtues of courage, wisdom, and strength—"qualities today's women must have to succeed in the business world," says Mertz. A statue was commissioned by the chamber and was designed by Michigan State University fine-arts student Linda Ackley, now herself a successful entrepreneur with her own studio in Lansing.

The bronze award is an abstract figure of a woman with uplifted arms holding a crystal prism. Ackley says

since 1982 to individuals in recognition of their business accomplishments, service to the community, and support of the goals and efforts of professional women.

The Oldsmobile division of General Motors, which is headquartered in Lansing, agreed five years ago to sponsor the Athena program nationwide through its network of automobile dealerships. Today 250 chambers in 45 states are participating in the project in partnership with their local Oldsmobile dealers. Marge Shelden, national director of the project, expects to have more than 350 local chambers involved by the end of the year.

"The program increases public awareness of the outstanding contributions of women," says Shelden. Noting projections that half of all businesses will be owned by women by the year 2000, she adds that more chamber marketing efforts should be directed toward women.

A packet of materials promoting the program tells Oldsmobile dealers that as sponsors, they "receive increased recognition and direct attention from one of the most influential and sought-after markets... the women's market."

Some of the proceeds from the sale of statues and jewelry modeled after the sculpture go to the Athena Foundation for use in the Lansing area. Last year, funds were made available to the Lansing Community College Women's Resource Center for scholarships for women in need of education to re-enter the work force.

An exhibit of the Athena sculpture is on display this year at the Michigan Women's Hall of Fame and Historical Museum in Lansing, and an exhibit is scheduled to begin at the National Women's Hall of Fame in Seneca Falls, N.Y., in September.

More information on the program is available from Marge Shelden, director, Athena Award Program, Lansing Regional Chamber of Commerce, 510 W. Washtenaw St., P.O. Box 14030, Lansing, Mich., 48901; (800) 548-8247. In Michigan, call (517) 487-6340.



PHOTO: © WILLIAM DEKAY

Inspired by developer Martha Mertz, right, the Athena Award Program is directed by Marge Shelden.

she chose a surface with a lot of texture, likening it to the life of a successful woman. The prism symbolizes the multifaceted nature of women and their ability to shed light on the community.

The award has been given annually

Anne Merick is a free-lance writer and media consultant in Bethesda, Md.

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MANAGING

Making An Impact On The Workplace

Most women business owners refuse to sacrifice personal life to business, contends Susan Hager, president of Hager Sharp, a prominent Washington, D.C., public-relations firm. Instead, she says, they are coming up with strategies to achieve a balance between work and personal life for themselves and for their employees. "The entire business community could take lessons from women in this respect," she says.

Hager was a panelist at a recent symposium in Crystal City, Va., on the impact of women business owners on the workplace. Among the points she made:

- Women business owners judge employees not by whether they give their all to the company but by whether they are productive. "We equate the 100-hour workweek with insanity," she said.

- Women business owners measure success not only by growth and profit but also by the quality of products or services and the quality of the work environment.

- Women provide more flexibility to employees, offering flextime, multiple career ladders, and more vacation leave (which may be more important to some



PHOTO: © TERRY ADIE

The 100-hour workweek is insane, says entrepreneur Susan Hager.

employees than salary). An employee on maternity leave may have a computer at home so she doesn't feel cut off from the office.

Another panelist told the symposium that there's a "humanizing element" in women's businesses. Marsha A. Ostrer, a Silver Spring, Md., business consultant, said that she finds that among her clients, women are more likely than men to try to achieve consensus in making decisions; men, she said, are more likely to make "top-down" decisions. Women are more relationship-oriented, she said, and men focus more on the bottom line. She also said that women frequently "take the emotional temperatures" of their companies.

The panelists agreed that women's approaches make good business sense because they lead to less burnout and more productivity.

Lillian H. Lincoln, founder of Centennial One Inc., a Lanham, Md., company providing building-maintenance services, noted that women business owners hire more women and more minorities than men do. This means they're at the leading edge of managing a work force that is growing more diverse.

The symposium was part of the 35th annual conference of the International Council for Small Business, sponsored by George Washington University, the U.S. Small Business Administration, Bell Atlantic, and others.

—Sharon Nelton

ACHIEVEMENTS

Awards Go To Enterprising Women

Actress Marla Gibbs has been named "Celebrity Woman Business Owner of the Year" by the National Association of Women Business Owners. Gibbs, star of the NBC series "227," is the founder and owner of Memory Lane, a well-known Los Angeles nightclub.

Gibbs was cited as "a role model for women and minorities" and for exhibiting "the entrepreneurial spirit characteristic of the NAWBO woman business owner." The organization said she has used Memory Lane to help aspiring young musicians reach an audience.

In another program this summer, Avon Products Inc. named five women as recipients of its annual Women of Enterprise awards. Recognized for outstanding business achievement, despite significant hardships, were:

- Kavelle R. Bajaj, 40, president of I-NET Inc., Bethesda, Md. An immigrant from India, Bajaj built an \$18-million-a-year telecommunications business, overcoming prejudice that she encountered as a nonwhite, a foreigner, and a woman.

- Janis L. Hahn, 36, director, Radiology Relief Inc., San Diego. Having

overcome ovarian cancer as a teenager, Hahn went on to become head of a group of technologists who work flexible hours to staff health-care facilities throughout southern California.

- Carmella M. Liberto, 59, president, R.J. Liberto Inc., Pittsburgh. A divorced mother of 10 children, Liberto turned around her family's debt-ridden commercial-refuse company.

- Marie L. Mahan, 47, founder of Flour Pot Gourmet Foods Inc., Cedar Rapids, Iowa. A victim of both child abuse and domestic violence, she launched a gourmet cookie company out of her grocery money and built it to nearly \$5 million in annual sales. In 1988 she sold her interest, but she still serves the firm as a consultant.

- Katherine B. Moore, 48, president of Eastern Delivery Service Inc., Wilmington, N.C. Moore overcame prejudice as a black female to turn her ex-husband's debt-ridden trucking and delivery company into a success.

Avon's award winners were selected from more than 400 candidates nationwide. Each winner received a \$1,000 prize.

Mark Your Calendar

Sept. 12, Chicago

Entrepreneurial Woman's Conference, sponsored by the Women's Business Development Center. The theme is "The State of Women in Business: Taking Risks in a Changing World." Highlights include a buyers' mart and workshops on entrepreneurial and industry-specific issues. Contact the Women's Business Development Center at 230 N. Michigan Ave., Suite 1800, Chicago, Ill. 60601; (312) 853-3477.

Sept. 12-16, Minneapolis

Annual convention of the National Association of Women in Construction. Keynote Susan Engeleiter, administrator of the U.S. Small Business Administration, will discuss the initiatives and programs offered through SBA to assist women business owners. Contact the association at 327 S. Adams, Fort Worth, Texas 76104; (817) 877-5551.

Software For Sharing

By Teresa Reeder

A little-noticed revolution is taking place in the computer operations at many companies throughout the country. They are choosing low-cost "shareware" programs to perform tasks previously carried out by \$500 word-processing programs and \$700 spreadsheets sold by commercial software firms.

Shareware programs are software programs that can be distributed and copied at little or no cost and without breaking any copyright laws. In fact, the computer programmers who create and distribute these programs want others to make copies of the software and give those copies to friends, relatives, and neighbors.

For programmers who lack access to conventional software-marketing channels, the shareware procedures can be effective in putting a new program into users' hands. Then, as distribution widens and use of the shareware increases, users' experiences can lead to refinements in the program. After they have been used and improved over time, shareware programs sometimes are sold to conventional software-marketing companies. While they are in the shareware-distribution channels, however, such programs can be welcome cost savers for firms and institutions.

Among the companies using shareware programs are Caterpillar, MCI Telecommunication, Du Pont, Ford Motor Co., the *Los Angeles Times*, and Texaco. Word-processing shareware is used also at institutions such as Kent State University, Rutgers University, the U.S. Naval Academy, and the University of Hong Kong.

Robert Rose, vice president of SunBank of Tampa Bay, in Tampa, Fla., says he learned about shareware through hearing about a particular word-processing program, PC-Write: "Friends kept telling me how great PC-Write was. Finally someone made a copy of the program and gave it to me to try. I've been using it personally for about six years now. Today, I use a lot of different shareware programs. I'm a great advocate."

Teresa Reeder, a free-lance writer in Boise, Idaho, is a former computer-systems analyst for a medical-software company.

The most effective software for your firm's computers may not be the most expensive; many firms prefer low-cost "shareware" programs.



Florida banker and shareware advocate Robert Rose says it's erroneous to think that "if you don't pay a lot of money for a program, it's not good."

A year ago, Rose introduced PC-Write at SunBank of Tampa Bay. About half of the employees who use computers switched to it from a commercial program they had been using. Newly hired employees start with PC-Write, he says, "because it does everything that the other commercial word-processing program does, and more, at one-tenth of the cost."

PC-Write was created by Bob Wallace, the president and founder of Quicksoft, a software company in Seat-

tle. It was Wallace who coined the word "shareware" to describe the marketing concept of "you try before you buy." Wallace was certain that his programs were good and could be used by others, and he started shareware as a way to distribute them because he knew little at the time about conventional ways of marketing software.

Shareware is distributed in two ways. Programs can be copied from program diskettes borrowed from someone such as a colleague, or they can be obtained

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SMALL-BUSINESS COMPUTING

for a small charge from mail-order companies that specialize in shareware programs. A buyer who requests shareware from a mail-order company receives disks with full working programs; the charge is \$1 to \$20 per disk.

A person who has tried a shareware program and decided to use it is expected to register with the software company that created the program, but there is no legal obligation to do so. By registering—the fee is typically \$10 to \$129, depending upon the complexity, quality, and popularity of the program—the shareware user receives support and manuals like those that come with commercial software packages. (Shareware companies also sell manuals and diskettes separately. PC-Write's user guide costs \$59, and the diskette is \$19.) A person who tries such a program and chooses not to use it simply keeps the diskette; no registration is expected.

Calvin Durden, vice president of data processing for Tractor and Equipment Co., a Birmingham, Ala., construction-equipment distributor with 350 employees, has ordered copies of dozens of programs advertised in the classified sections of computer magazines. "We kept what we liked and discarded what we didn't like," Durden says. "I've found almost everything in shareware that you would find in commercial programs. In fact, some of the commercial programs started out as shareware."

When Durden was shopping for the firm's word-processing program, he says, it made no difference to him whether the program cost \$89 or \$600. He just wanted a program that fit his company's needs. He chose PC-Write because it was compatible with other programs at his company and because of its ease of use.

For Robert Rose of SunBank, however, "price was a major concern," he says. "But so was performance. Regardless, if the price was free and it didn't do what we wanted it to do, we wouldn't use it. We've been using PC-Write for about three years now. It was very easy for our users to learn and does everything we need it to do."

Price does not necessarily indicate the quality of shareware. "There's the perception that if you don't pay a lot of money for a program," Rose says, "it's not a good program. Overcoming that is not easy, especially in a large organization where they demand the best product money can buy, and if it doesn't cost a lot of money, then they think the product can't be good. That's not true. That perception is changing, but it's changing very slowly."

Quicksoft's Wallace says shareware firms also sell support, and he thinks



PHOTO ©DOUG WILSON—BLACK STAR

Quicksoft founder Bob Wallace coined "shareware" to describe his try-before-you-buy concept for distributing programs.

they're succeeding at it. "When a user calls up a shareware company with a problem," Wallace says, "the support person is usually someone who has worked on the program in development, testing, and design."

Generally, shareware companies give a certain amount of free support, usually a year's worth, to anyone who has purchased a registration. After that, the shareware user can buy a support agreement. With most commercial software bought at a computer store, the

buyer either purchases a support agreement or phones the software manufacturer later for help with problems. The manufacturer bills the user for its service. Wallace says people are happy with the help they get from the shareware company.

Many shareware programs, like those on subjects such as stargazing, genealogy, and golf-score tracking, have small, special-interest audiences and might not succeed in the commercial market. Others, like PC-Write and

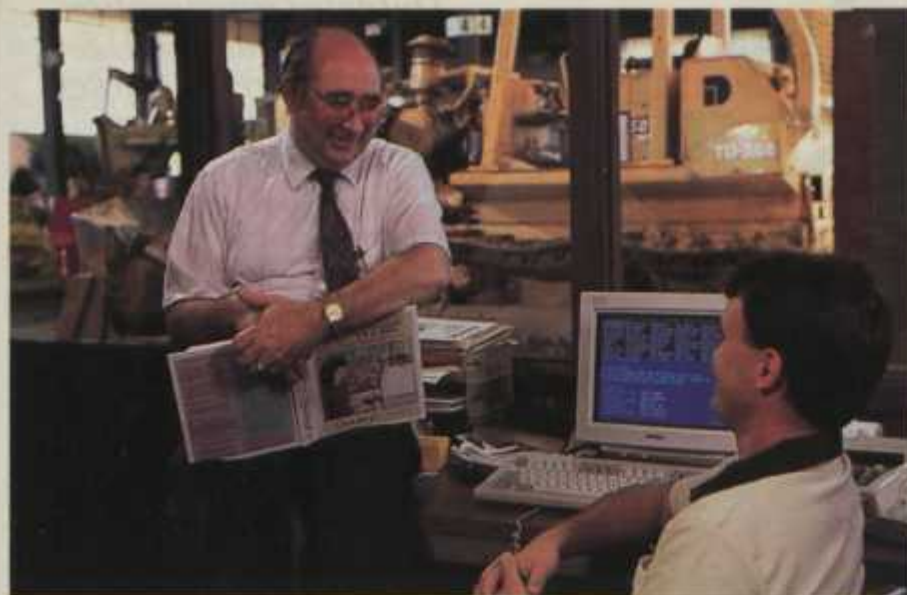


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Equipment-company executive Calvin Durden has found "almost everything in shareware that you would find in commercial programs."

PC-File, are of more general interest and sell well. For example, Quicksort reports that 47,200 people registered as PC-Write users, 93,200 purchased diskettes, and 85,400 bought manuals.

Although it's a low-cost way to examine and acquire software, shareware is not just for firms on tight budgets. "If there's a product that meets a business's needs in the shareware area, there's no reason not to go with it," says Alabama businessman

Durden. "On the other hand, there may be some commercial products out there that may be a better fit. You have to really look at the function. You can pay \$700 for a product and you can pay \$39 for a product, but there's no way to say which is going to do a better job. It depends on the individual and his business." **IB**



To order reprints of this article, see Page 57.

Where To Find Shareware

The following companies copy and distribute shareware. You may contact them for catalogs.

Accusoft
Box 02214 - Dept 7D
Columbus, Ohio 43202
Catalog is free; shareware is \$1 per disk.

JDX DCS
P.O. Box 1561
Corona, Calif. 91718
(714) 734-7075
Catalog is on a disk.

People's Choice
P.O. Box 171134
Memphis, Tenn. 38187-1134
(800) 843-5084
Shareware is \$3.75 per disk.

Public Brand Software
P.O. Box 51478
Indianapolis, Ind. 46251
(800) IBM-DISK
Shareware is \$5 per disk.

Quicksort Inc.
219 First Ave. N., #224
Seattle, Wash. 98109
(206) 282-0452
Makes and markets PC-Write and PC-Browse.

RSM Inc.
7675 N. First St., Suite 292-PCC
Fresno, Calif. 93710
(800) 541-8804
Programs start at \$1.99.

Sofsource
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THE WORK FORCE

Denying Entry To Needed Skills

By David Warner

America's immigration laws may cost Terry Fortuna 30 percent of her business.

Her company is Fortuna's, which sells and repairs leather goods. Its operations include the repairs of leather handbags for nearly all of Washington's major department stores, such as Nordstrom, Macy's, Bloomingdale's, Lord & Taylor, and Saks Fifth Avenue. The future of that portion of Fortuna's business is now in doubt, however. Her expert handbag repairman for the past 30 years, Mike Nouri, 70, is retiring soon, and his replacement from overseas, Gianfranco Belviso, 32, will have to return to his native Italy in less than a year, when his visa expires.

"I'm going to have to turn away the handbag-repair work or limit it severely when Franco's visa expires next April and Mike retires," says Fortuna. She has been unable to find U.S. workers with the skills needed to fill the specialized position or even any who are willing to be trained.

Belviso was brought to the U.S. in May on a temporary visa, which is good for 12 months, rather than on a permanent visa because the waiting time for permanent entry is more than three years for skilled immigrant workers. The long wait presents a problem for Fortuna. "I can't go back to my [handbag] clients three years from now and say, 'Here I am again,'" she says. For her sake, she adds, "[Congress] needs to change the immigration laws real quick."

Under current U.S. immigration statutes, there are only two general categories under which immigrants may permanently—and legally—enter the country. One category consists of relatives of U.S. citizens plus permanent resident aliens; the other category is made up of business-sponsored workers. Historically, preference has been given to reuniting family members, and almost 90 percent of the 500,000 to 600,000 visas issued each year go to immigrant relatives of U.S. residents.

Only 54,000 visas a year are allocated to business-sponsored immigrants.



PHOTO: T. MICHAEL KEZA

Terry Fortuna, left, may lose much business when immigrant Gianfranco Belviso is forced to leave.

That number is divided equally between two groups—skilled immigrants and those who are professionals or have "distinguished merit or ability." The number also includes the sponsored immigrants' dependents, who account for more than half of the visas.

Under Immigration and Naturalization Service regulations that took effect Feb. 26, professionals are those who have at least a baccalaureate degree, or job experience equivalent to a degree (three years' experience is regarded as equal to one year of education), or a combination of education and experience. Before the new rules took effect, only immigrants with degrees were considered professionals. The degree or experience must be relevant to the position for which the immigrant applicant is being sponsored, and a degree must be a requirement of the position.

Although Fortuna's Belviso has the Italian equivalent of a degree in leather design and about 10 years of experience, the position does not require a degree. Therefore, he cannot be classified as a professional; he could be admitted to the U.S. on a permanent basis only under the skilled-immigrant cate-

Outdated immigration laws are delaying U.S. entry of foreign workers needed by American firms to stay competitive.

gory. Skilled workers are defined as those who have at least two years of experience in the position for which they are being sponsored.

Even for his temporary visa, Belviso was not considered a professional, a classification that would have let him stay in the U.S. for five years. Instead, he was admitted under a one-year temporary visa for seasonal and peak-load workers.

Because of the small number of permanent business-sponsored visas available, there is a backlog of immigrant workers waiting to enter the U.S. The State Department, which processes visa applications, says that as of January 1989, the skilled category had a backlog of 100,468. Those applying last must wait more than three years to enter the U.S. At the same time, there were 32,660 professional-level immigrants waiting to enter the country, a backlog of about 14 months.

Companies that want to sponsor immigrant workers must first receive U.S. Labor Department certification that no U.S. workers are available for the position they need filled.

Daryl Buffenstein, head of the national immigration practice for the law firm of Paul, Hastings, Janofsky and Walker in Atlanta, says Fortuna's situation is typical of many companies looking for specialized workers. "High-tech firms and specialty businesses that cannot find qualified U.S. workers but are able to identify foreign specialists are having a very difficult time getting those immigrants into the country because of the United States' archaic, anachronistic immigration laws and regulations," he says. "The severe backlogs and time delays in transferring highly skilled or professional personnel to U.S. operations are untenable and severely hinder U.S. business in its ability to meet the challenges of the domestic and international markets."

Fortuna, for example, could lose \$300,000 of her \$1-million-a-year business if she cannot find a replacement for her handbag repairmen. Such a rev-

enue loss would mean a reduction in her 30-person operation, she says.

There is little doubt that U.S. companies, such as Fortuna's, could use more skilled foreign workers.

The Labor Department estimates that the economy will expand 2 to 3 percent a year over the next decade, but the U.S. labor force will grow only 1 percent a year. Engineers, computer scientists, and other technical and services experts already are in short supply in the work force, and that means business's employment problems could get much worse unless immigration laws are amended.

Contributing to their difficulties, many employers say, is the 1986 Immigration Reform and Control Act, which requires employers to verify that workers they hire are U.S. citizens or that they are authorized to work in the U.S. The law, adopted to stem the flow of illegal aliens into the country, has caused shortages of vitally needed low-skilled and unskilled labor.

The Business Immigration Coalition is urging Congress to increase the number of permanent business-sponsored visas to 120,000 yearly and to bring immigration regulations up to date. The group points out that laws applying to legal immigration have not been amended since 1965.

Coalition members include the U.S. Chamber of Commerce, the American Immigration Lawyers Association, the National Foreign Trade Council, the American Council on International Personnel, and the National Association of Manufacturers.

Warren Leiden, executive director of the American Immigration Lawyers Association, says: "There's been modernization and change [in business], but the immigration laws haven't kept pace. Business will support legislation that provides more immigrant visas where labor certification has shown a shortfall and unavailability of U.S. workers."

Says Fred Krebs, manager of business and government policy for the U.S. Chamber: "With growing economic interdependence, the ability to transfer key foreign specialists between countries becomes imperative. If the United States does not want to be left behind, we must open our doors to the individuals who can help business grow and meet the challenges of the changing international economy."

In the past year, Congress has moved to crack the door for more legal immi-

gration. The House Judiciary Subcommittee on Immigration, Refugees and International Law has approved a bill sponsored by the panel's chairman, Bruce A. Morrison, D-Conn. The bill would raise the number of business-sponsored visas to 95,000, excluding dependents.

Last July the Senate passed a measure—sponsored by Sens. Edward M.

sored immigrants—professionals and skilled workers—and for immigrants who earn a certain number of points based on their education, training, and work experience. The latter subcategory would be used primarily by workers who do not have specific jobs waiting for them in the U.S.

Virginia Thomas, a senior legislative officer with the Labor Department, says, "For a small-business person to somehow magically come across an immigrant whose education and skills are needed and who has entered the United States through the point system is going to be like finding a needle in a haystack."

The House measure, like the Senate bill, would lump professionals and skilled workers in one category. It also would allocate 1,000 visas for aliens with business expertise.

Says Buffenstein: "A division between the higher-priority [professional] immigrants and the lower-priority [skilled] immigrants is absolutely critical. Eliminating the priorities will cripple the ability of the business community to respond to challenges and compete in international markets." He says professionals under both bills likely would have to wait much longer than the current 14 months to enter the U.S.

Unlike the Senate bill, the House bill would streamline the process for proving a need

for an immigrant worker. A firm could apply for a foreign worker without obtaining Labor Department certification that there are no U.S. workers for the position. The employer would be required only to attest that no U.S. workers are available and that the sponsored immigrant would be paid the prevailing wage or the same wage as U.S. workers in the same position, whichever is higher. A company's assertion could be challenged, however, by its employees or by outside parties such as labor unions.

The House bill is unpalatable to business for other reasons. One is a provision that would require many employers to pay a fee to the U.S. government for each immigrant they bring into the country. Companies with fewer than 50 employees would not be required to pay a fee; those with 50 to 200 workers would pay \$500 per immigrant; firms with more than 200 employees would pay \$1,000 per foreign worker. The fees would be used for grants to the states to provide educational assistance and training for U.S. workers.

The measure also would limit visas



PHOTO: © JEFF ZARUBA—ATLUS INC.

Easing immigration laws would help firms find technical skills that are in short supply in the U.S.

Kennedy, D-Mass., and Alan K. Simpson, R-Wyo.—to increase business-sponsored visas to about 86,000 a year, but that number would include dependents.

Immigration legislation still must be approved by the House Judiciary Committee, the full House, and, in all likelihood, a House-Senate conference, which would reconcile differences between their respective measures.

As they currently stand, however, both the House and the Senate bills could worsen the immigration problem for business because they would eliminate the priority given to professionals. Although the proposals to increase the numbers are steps in the right direction, the numbers in the bills are not enough to meet business's future needs, says Krebs.

The Senate legislation would create an independent immigrant category with subcategories for business-spon-

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THE WORK FORCE

for temporary foreign workers and eliminate the separate categories for professionals and skilled workers, says Buffenstein.

"Business doesn't need a tax on immigrants, a point system, or new categories for immigrant workers," says Krebs. "It needs more visas so that the backlog of business-sponsored immigrants, who have already been approved for entry and have jobs waiting for them, can begin working for these businesses."

The Bush administration and the federal agencies that deal with immigration—primarily the State Department, the Labor Department, and the Immigration and Naturalization Service, which is in the Justice Department—agree that the backlogs must be addressed and the immigration laws must be updated.

Says an INS official: "Our recommendations [to Congress] were to reform the legal-immigration system as the next step to bringing it up to date. We're working with essentially the same system that was adopted in 1952. We want Congress to increase the emphasis on skills-based immigration and provide greater balance between family- and skills-based admission levels."

Although there is widespread support for reforming America's legal-immigration laws, progress has been slow, some experts say, because of essentially unwarranted concerns about the economic effects of immigrant workers on the U.S. economy.

Julian Simon, a professor of business administration at the University of Maryland and author of *The Economic Consequences of Immigration*, says numerous studies disprove "popular wisdom" about immigrants' effects on the economy. For example, he says, immigrants do not displace American workers but create jobs, and they do not use more welfare services than non-immigrants—they use fewer. He adds that immigrants enlarge the country's taxable wage base and tend to be as well educated and as occupationally skilled as those born in the U.S.

"An overall increase in immigration is the best way to boost the crucial stock of talented scientists, inventors, engineers, and managers who will improve U.S. competitiveness," says Simon. "Talented young immigrants help us advance every one of our national goals. They make us richer and not poorer, stronger and not weaker."

Unless current immigration laws are improved and the House and Senate bills are modified to address U.S. business's employment needs, business people say, companies like Terry Fortuna's may soon be poorer and weaker. **NE**

LESSONS OF LEADERSHIP

Life After Near-Death

By Michael Barrier

John C. Koss, a 60-year-old Milwaukee businessman, describes himself as "the typical kid who started with the lemonade stand. Totally entrepreneurial." He could have wound up in any number of businesses, but as it happened, he won great success in one he cared about for its own sake. "This business got very interesting and exciting to me because it was something I liked," Koss says of the company that bears his name. "It was music; it was like being right back in the [trumpet] section."

His company was the first to make stereo headphones, more than 30 years ago, and his name will be the first that comes to mind when almost any audio buff is asked to identify the leading manufacturer of headphones.

Headphones existed before Koss started making them, but they were for communication, not for music. As Koss says, "You can't get a musical balance with what you get out of a telephone." The Koss headphones were the first to provide full amplitude, low notes as well as high.

Although he worked with an audio engineer to get that result, Koss himself is not an engineer—he has only a high-school education—and that may be one reason his 'phones have always been so good. "I didn't understand any of that," he says of the technical side of sound reproduction, "and I didn't want to understand any of that." His standard for measuring the quality of the Koss headphones' sound reproduction "was basically my ears at the time. I was a musician, a trumpet player, and I knew what I wanted to hear."

He listened to various records through headphones over and over again, and he responded as a listener to how changes in the way the 'phones were put together modified the sound. "Then I would get some musician

friends as they came through town, and we'd sit them down with a whole row of equalizers." He met jazz trumpeter Bobby Hackett, who introduced him to singers Mel Torme and Tony Bennett; trumpeter Dizzy Gillespie and pianist Oscar Peterson also listened through the headphones and told Koss what sounded good to them. "In effect," Koss says, "we've been doing it that way ever since."



PHOTO: ©RICHARD BEEK

John Koss, right, and his son Michael wear the cordless stereo headphones that have helped win their company a glowing reputation with audio buffs.

When Koss speaks of the company and his role in it, he reveals a similar bias toward the intuitive. He describes himself as "an artist, an innovator, a motivator, a problem solver." The American audio companies that have survived, he says, "are the ones where there's some perception of art left, instead of the science."

Koss Corp. came very close to not surviving. In December 1984, it sought protection under Chapter 11 of the federal bankruptcy code. Unlike many such companies, it emerged from Chapter 11 a year later and has gone on to a string of profitable years. The lesson of its experience is not, as you might expect, that "art" must give way to hard-headed business decisions; the lesson is more the reverse. It was when John Koss decided to behave less like "an artist," and more like a businessman, that he got into trouble.

As John and Michael Koss can tell you, Chapter 11 concentrates the mind.

Koss got into headphones in a roundabout way, after first making some money renting television sets in Milwaukee hospitals. He and an engineer colleague planned to market what Koss describes as "a little portable phonograph with side-wing speakers" and a "private switch" that the listener could use to listen to music through another part of the package—headphones.

In November 1958, Koss took several demonstration units to a hi-fi show at a Milwaukee hotel. The phonograph was a wallflower at a show dominated by high-quality components, but the headphones attracted a lot of interest.

"For a couple of days I kept trying to sell them the package," Koss recalls. "Finally, I thought I'd better consult the marketing department, so I went back to the office, went in the bathroom, looked in the mirror, and said, 'There's a message here. What's the feedback telling me?' And the guy in the mirror said, 'Can the phonograph and make stereo-phones. That's what people want.'"

They did indeed, and by the mid-1960s, Koss Corp. was a highly successful little company. So John Koss did what seemed to be the natural thing for anyone at the head of a growing company to do: He expanded the product line, by buying a couple of other small companies. "We thought we would try to handle turntables, electronics, and 'phones. That didn't work."

Koss Corp., newly public, suffered heavy losses before retreating to its specialty, headphones. In the mid-1970s, the company went to the brink again, this time because John Koss brought in outside management that failed to respond adequately to growing Japanese competition.

There is an eerie sense, in reading old clips about Koss Corp., that its history in the mid-'60s and mid-'70s repeated itself in the early '80s. Once again, John

LESSONS OF LEADERSHIP

It all started with these crudely assembled headphones, designed to reproduce music adequately. John Koss introduced them at a 1958 hi-fi show in a Milwaukee hotel.

Koss had brought in outside help—"a strong financial man" who had worked for a much larger corporation—and once again, the company tried to expand its product line, this time with a walkaround radio called the Koss Music Box. Were the situations as similar as they seem?

"From my perspective," John Koss says, "they were the same. I listened to all of the administrators who said, 'As an entrepreneur, you ought to have somebody who can run your business.' That really wasn't true; I was running it pretty good, both times. But the plan was to get somebody who could do a better job. Well, the company had its own personality, and a lot of the people who were here resisted the change. You mix that up with the outside forces of the economy and everything else, and pretty soon you've got a problem."

The "problem" in the early '80s turned out to be much knottier than the earlier ones. Partly because of slow deliveries from a Taiwanese supplier, the Koss Music Box was overtaken almost immediately by lower-priced competitors—but the company misread the market and compounded its woes by adding tape recorders and a second radio to its walkaround line. In the meantime, the headphone lines were stagnating, and Japanese competitors were eating away at the market.

John Koss pulled the company back from its errors and restored its emphasis on headphones, but too late—skeptical bankers forced Koss Corp. into Chapter 11 in December 1984. "The perception was," John Koss says, "Asia's taking over, and little Koss isn't going to be able to stand up to it." Fortunately, he says, "the quality image that we had" permitted the company to keep expanding its dealer base even during its troubles—"a hell of a way to find out who your friends are." After a year of turmoil, Koss Corp. settled with its lenders, paying them about two-thirds of the nearly \$14 million it owed.

Almost immediately, the company began proving the banks' skepticism unfounded. At the January 1986 Consumer Electronics Show, the industry showcase, Koss introduced, to enthusiastic response, a new line of lightweight 'phones that had been in development just before the Chapter 11 filing. Then, at the July Consumer Electronics Show, Koss introduced the first



PHOTOS: ©RICHARD DERR

infrared, cordless 'phone—another highly successful product.

Koss Corp.'s snazzy new products permitted Koss to take full advantage of the audio boom that accompanied the introduction of compact discs. The company has been consistently profitable since it emerged from Chapter 11; net income in fiscal 1989 was \$1.7 million on sales of \$26.5 million. This time, though, there is no sign that prosperity will tempt John Koss into mistakes like those that almost cost him his company.

A passage through Chapter 11 can lead a company to adopt disciplines of obvious kinds. "We've got one secretary for three executives," John Koss says. "We answer our own telephones." Exceptionally generous wages gave way to a more realistic compensation policy, with the result that Koss narrowly avoided unionization in a 1987 vote. But Chapter 11 also brought with it a profound shift in how Koss Corp. goes about its business.

The instrument of that change has been John Koss' eldest son, Michael J. Koss, 36. Michael became president and chief operating officer three years ago, after holding a string of lesser corporate positions. (John Koss still controls about 35 percent of the stock, and other members of his family also hold executive jobs: John C. Koss Jr. is vice president for sales, son-in-law Michael F. Moore is general counsel.)

Michael Koss relishes the technical side of the business in a way his father does not, but he is not wrapped up in engineering minutiae; instead, he is trying to transform the manufacturing process by rethinking every detail of it. If the Chapter 11 episode had not occurred, he says, "I'd probably still have the attitude most business people do: When you grow, you add people, you expand; and if you ever have a problem, just throw money at it." But not now.

At the Koss plant on the north side of Milwaukee, around 150 to 350 workers,



Koss workers assemble headphones by hand.

depending on the season—most headphones are sold just before Christmas—assemble the company's more expensive products (the cheaper headphones are made in the Far East). As Michael Koss leads a tour of the plant, he speaks of synchronizing every



for years: You get a big machine and, whether you need the stuff or not, you make sure it's working all the time, because you've got to justify its existence."

That's not to say new machinery won't come into the plant: "There are a few things we'd like to automate, and we will, but when you look at the diversity of the products we're making, you'd wind up spending all the money for automation and never change them. People are pretty flexible; machines aren't. That's one of the reasons we've looked at simplifying the way we make things."

"Simplifying" can mean compromising, of course, but not in this case. Koss makes headphones covering a very wide price range, from less than \$10 for 'phones sold in discount stores, to \$275 for the top-of-the-line infrared model, but they all enjoy an enviable reputation for quality. The audio columnist for *The New York Times* wrote recently of "the remarkable performance" of the infrared Koss Kordless headphones, and their "delightfully clear" tone, and other Koss 'phones have won comparable accolades over the years. There's no hint, in what John and Michael Koss say, that they ever think about cutting corners. Headphones now account for close to 90 percent of Koss Corp.'s revenues, but the strongest evidence of the company's post-Chapter 11 character may lie in an unlikely place: a new product line.

The new line differs markedly from the products that brought Koss to grief twice before. It is made up of compact-disc recordings by the Milwaukee Symphony Orchestra under Zdenek Macal. Both John and Michael Koss

are classical-music enthusiasts—John once owned a classical radio station—and at first glance, starting their own record label might seem like a quixotic gesture at best, an act of personal and civic vanity at worst. But in fact, the Kosses have gone about marketing their

Since 1972, Koss Corp. has entertained commuters on Interstate 43 with pun-filled billboards like this one, near the Koss plant on the north side of Milwaukee.

CDs in a carefully thought-out manner.

"There is an enormous filtering system that keeps some very interesting products from ever reaching the hands of consumers," Michael Koss says. Rather than go through the frustration and expense of challenging that system—as they might have, pre-Chapter 11—the Kosses have taken advantage of their headphones' wide distribution. Each set of Koss 'phones comes with a package insert inviting the purchaser to "expand the Sound of Koss with the Koss Classics." Interest stirred by the inserts has made it easier, in turn, to get the CDs into record stores.

The first three Koss CDs, of music by Dvorak and Beethoven, won rave reviews, as performances and as recordings—*Fanfare* magazine bracketed Macal's version of Beethoven's Ninth Symphony with classic recordings by Arturo Toscanini and Wilhelm Furtwangler—and they may well turn out to be financial winners, too. The Kosses hoped to reach the break-even point by the time they had released eight CDs; they were almost there after just three discs had been released.

The way the Kosses do things, their quest for profit doesn't work against what John Koss calls "the perception of art"; instead, it makes the "art" economically feasible.

From all appearances, Koss Corp. is now out of the woods. True, sales and profits in fiscal '89 were down a little from fiscal '88, and fiscal '90 may be no better than '89; but the audio industry has always gone through sharp cyclical swings. John Koss says, "The trouble is, everybody thinks the rise is never going to stop." The Kosses know better.

Koss Corp. has emerged from Chapter 11 as a company that devotes its energies to a relatively small number of products, which it makes superlatively well. It is run by people who care about what they make, and who try to find ways to make better products more cheaply. They have the intense interest in their company that comes from owning a large part of it, and they know not to be seduced by good times or discouraged by bad.

That description may sound familiar. Similar words could have been applied to many, many thousands of U.S. companies not long ago, when American manufacturing was one of the glories of the world. ■



The headphone line includes dozens of models.

stage of the work, so that there is as little waste motion, and as little waste product, as possible—a pull-through operation in which each worker makes only what is needed at the next step.

"It's totally divergent," he says of his approach, "from what's been done

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Family Business

A stormy father-and-son relationship; helping heirs apparent learn responsibility; a daughter's demands to take part in the business.

COMMENTARY

Agony And Ecstasy At IBM

By Sharon Nelton

Father, Son & Co., Thomas J. Watson Jr.'s memoirs of life with father at International Business Machines Corp., is on the best-seller list and deserves to be. A juicy account of the stormy relationship that existed between Tom Watson Sr. and Tom Watson Jr. as they led IBM to greatness, this book can wring sweaty recognition out of any father and son in business together.

Watson says he was in awe of his powerhouse of a father, "yet we both had such hot tempers that it was hard for me to be in the same room with him, much less try to learn from him how to run a company." They fought savagely about every major issue of the business, from how to finance IBM's growth to what roles other family members ought to play.

What *Father, Son & Co.* (written with Peter Petre, Bantam Books, \$22.95) somewhat plays down, however, are the ways in which the two men sought to affirm their love.

Watson told *Nation's Business* that his father would often tell him that he loved him. "And very warmly. And he would frequently, at the end of one of these battles, be in tears with his arms around me and his face next to mine, saying things like, 'Now, come on, Tom, I'm counting on you, and you and I have got to stand together.'"

They were a "kissing family," Watson says. "I always kissed my father good night, or, if I met him on the street and I was 40 and he was 80, I'd always grab his hand and kiss his cheek."

Watson's book is refreshingly candid. He tells tales on himself—as a child, he burned a brand-new leather coat by trying to make smoke signals with it over

a fire. He admits his own management blunders. And he more than once admits he cried, and he even describes seeing a psychiatrist when it looked as though his marriage of 30 years would fail (it didn't).

We asked if it was hard to be so honest. "Not at all," he replied. About four or five years ago, said Watson, who left IBM in 1970 and is now 76, he finally became "comfortable with my life." Only four or five years ago? Why not sooner? The answer seems to lie in

the things he did not only inside IBM (taking it from \$700 million in annual sales to \$7 billion during his years of leadership) but outside it as well, serving the Carter administration as chairman of the General Advisory Committee on Arms Control and Disarmament and as ambassador to

the Soviet Union. He was finally able to tell himself, "Heck, it just wasn't IBM," but that he was able to succeed at other endeavors as well.

Perhaps in his book he states it most succinctly when he writes, "I think I was at least successful enough that people could say I was the worthy son of a worthy father."

Though his father has been dead for more than 30 years, Watson seems to love him as passionately today as he ever did. But he told us the best father-son relationships he has seen are when the son, not the father, is the success. In his book, he says lots of sons ask him if they should follow their fathers into business. "My answer is: If you can stand it, do it."

To us, he said that to forge any relationship, "you have to take some bitter with a great deal of sweet, and that's the way I felt about my father."

PLANNING

Learning To Be Responsible

By Craig E. Aronoff and John L. Ward

"I wish my parents had concentrated a little less on keeping me happy and a little more on building my character. They always seemed to give me whatever I wanted... even more. Lots of times they seemed to feel guilty about not having enough time for my brothers and sisters and me, so they tried to make up for it with gifts of money."

We often hear this sort of lament from the adult children of successful entrepreneurs. In our work with family businesses, we have seen many situations in which such attitudes result in painful family and business conflicts.

Wise parents in very prosperous family businesses recognize the danger. Their dominant concern is that their children learn what accountability means and that the children accept responsibility for themselves, their decisions, and their actions.

Children of wealthy parents often have difficulty with accountability and responsibility. But "the silver-spoon syndrome" is by no means inevitable. Indeed, the young man quoted above managed to overcome his own resentment. Now he says: "I can't blame them. They spoiled me and protected me from failure because they loved me. I've realized that I have to accept accountability for all that myself now. As an adult, that's my responsibility."

Our experience leads us to be hopeful that a new trend is developing. At a recent seminar for those 20 to 30 years old who are family-business successors-to-be, we found these young people to be as concerned as their parents about their own learning of accountability and responsibility.

Developing a sense of responsibility with related characteristics such as humility, self-assurance, and independence was far more important to them than learning business skills, leadership capabilities, or effectiveness. In other words, these young adults had their priorities straight.

What did they mean by accountabil-



Nelton: "Watson loves his father as passionately today as he ever did."

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"The Family Business Experience" is a three-day course covering such topics as succession planning, women in family firms, and relations with nonfamily employees. Contact the Center for Entrepreneurial Management, 180 Varick St.—Penthouse, New York, N.Y. 10014; (212) 633-0060.

Aug. 26-30, Philadelphia

"The Next Generation of Family Members in Family-Held Businesses," a seminar for young adult family members and their spouses. Contact the Division of Family Business Studies, Sol C. Snider Entrepreneurial Center, The Wharton School, University of Pennsylvania, 426 Vance Hall, 3733 Spruce St., Philadelphia, Pa. 19104; (215) 898-4470.

Sept. 21-22, Dallas

Insuring continuity and health of the family firm is the subject of a seminar sponsored by Baylor University and the Greater Dallas Chamber of Commerce. Contact the Center for Entrepreneurship, Baylor University, Waco, Texas 76798; (817) 755-2265.

Oct. 17-20, Atlanta

"Celebrating Family Business," the annual conference of the Family Firm Institute. Speakers include family members from Huntsman Chemical and Spec's Music, a Florida retail chain. Panel topics include minority family businesses, career planning, divorce and the family firm, and recruiting and retaining key nonfamily managers. Contact the Family Firm Institute, P.O. Box 476, Johnstown, N.Y. 12095; (518) 762-3853.

How To Get Listed

The Family Business Calendar lists national and regional events that are open to the public. Send listings three months in advance to Family Business, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062.

ity and responsibility? We asked them and found that their definitions included:

- Solving your own problems. Seeking information and advice from others, but accepting that the ultimate decision is yours.
- Anticipating and accepting the consequences of your behavior. Recognizing that all decisions have risks.
- Being self-reliant. Realizing that you are dependent only if you make yourself so.



ILLUSTRATION: JIM STARR

- Not blaming others for bad outcomes. Making the best of it for yourself and others.

Above all else, they agreed, accountability and responsibility mean assuring that you have choices among satisfactory alternatives. Even when you choose to enter the family business, for example, you should take responsibility for maintaining your employability outside the family firm. Such choices provide personal and emotional freedom.

"The more choices I have, the less I need them," one young person explained. "The ultimate freedom is emotional freedom. Since I've felt free, I've been so happy."

We asked the heirs apparent how they felt one could best learn accountability and responsibility. The most common responses were:

- Create your own source of income in high school or college.
- Design your own college goals related to course of study, extracurricular activities, and personal development.
- Work outside the family business for a while. In so doing, develop a num-

ber of job alternatives from which you can choose.

- Gain self-reliance through individual travel and Outward Bound types of programs, which challenge and develop one's survival, risk-taking, and other skills.

- Maintain perspective while on the job in the family business by being paid market rates and seeking feedback whenever possible. Ways of gaining feedback include testing and counsel from industrial psychologists, talking with honest and trusted peers, and getting performance appraisals in jobs with measurable results and personal incentives (such as sales or profit-center responsibility).

We believe that wealthy families that produce responsible offspring have certain characteristics. For example, those families that earn their wealth when the children are teenagers or older seem to have a real advantage. Children who see firsthand the work and sacrifice necessary to be successful in business are much less likely to take for granted the fruits of that success.

Other wealthy families use essentially two methods of teaching their children about the relationships among work, sacrifice, and rewards. They have their young kids work basic, hard jobs, like sweeping the floors in a dirty plant or stocking the shelves in a retail store. They also live more modestly than their means permit, consciously avoiding having the most expensive car, the most elegant house, or the largest allowance in the neighborhood. In short, they avoid ostentation.

The bottom line on teaching your children to accept personal accountability consists of giving them opportunities to make mistakes, urging them to create choices for themselves, and helping them to gain the ability to see themselves as others do.

Or, as one successor in the seminar put it, with the quick concurrence of the group: "The best way to learn responsibility is to have your own kids!"



PHOTO: T. MICHAEL KEZA

John L. Ward is the Ralph Marotta professor of private enterprise at Loyola University of Chicago. Craig E. Aronoff holds the Chair of Private Enterprise at Kennesaw State College, in Marietta, Ga. Both are family business consultants.

CASE STUDY

"She'll Always Be My Little Sister"

Martin Schmidt is the second-generation owner and manager of a construction company that builds office towers around the world. He is in his late fifties and recently became concerned about his daughter, Dorothy, and her increasing desire to join the family business.

Marty's middle child, Robert, has been with Schmidt Works for four years and is widely viewed as Marty's likely successor. Marty's other child, his oldest son, moved far from home after a falling-out with his father. Marty's wife is not involved in the business.

Marty admits that Dorothy is well prepared for a career with Schmidt Works. She has studied at Ivy League



ILLUSTRATION: JIM STARR

schools, has worked successfully in a multinational conglomerate, and holds an MBA. When Marty was asked about his reservations about Dorothy's joining the firm, he replied: "I'm scared to bring her into the company. I know she's qualified, but I just can't see my Dotty leading and giving orders. She's a good girl, and I know that no one in

this business will listen to her."

Bobby shares his father's opinion that Schmidt Works is not "the right place for Dotty." He says: "I don't see her working in this industry—it's physically exhausting work. I'm afraid she'll fail, and she isn't able to handle failure. She'll always be my little sister—I'll never get over that. I just want to protect her, and I don't have time to hold her hand. Her insistence on joining the business is beginning to irritate me."

Dorothy says: "I've always wanted to be in the business, and as a family member, I should be allowed to join. My only problem is getting my father and brother to take me seriously. If I present some expert's idea, they listen, but my opinion is usually overlooked and not discussed. I feel frustrated and a little hopeless about even things I'm confident about."

Is there any hope for Dorothy?



PHOTO: © DON FURBER

Unfreeze The Family

Joseph H. Astrachan, associate director of the Center for Management at the Institute of Living, Hartford:

Marty and Bobby see Dotty in her family role, as daughter and sister, rather than in her potential business role. They also seem to view her in a traditionally gender-biased manner—they think that she and all women are generally frail

and that they lack competence and assertiveness. They also may be unwilling to share control of the company.

On the other hand, by saying that "as a family member, I should be allowed to join," Dotty may be communicating that entering the business is a birthright rather than something she must earn with valuable skills, expertise, and effort.

Inaccurate perceptions and inappropriate communications are major impediments to working through the succession issues that this family business faces. Marty, Bobby, and Dotty must unfreeze their current views to acknowledge one another's qualities properly. They need to be able to envision one another as being capable of more than their roles in the family. They can begin expanding their views by explicitly discussing their roles, traits, strengths, and weaknesses in the family and in other settings. The positive as well as negative impact of Dotty's gender on her effectiveness in the business should be open for discussion.

This process often requires the help of a "facilitator"—a trained professional or trusted friend who can keep discussion focused on important issues, keep them from becoming arguments, and ensure that everyone is heard.

Once views begin to thaw, it will be easier to work on other crucial succession issues. These should include Marty's, Bobby's, and Dotty's visions of the future of the business, ways that they can fit themselves into these visions, changes they may need to make in order to turn their aspirations into reality, and the plans for action they will use to accomplish their goals.



PHOTO: © JEFF LAWRENCE

Broaden The Lens

Mary Whiteside, a clinical psychologist with the Ann Arbor Center for the Family, Ann Arbor, Mich.:

Each person's concerns can best be addressed if the family as a whole—including the estranged son—will take time for a family council meeting to assess succession planning, current and future ownership structure, goals for Schmidt Works, and everyone's hopes for family relationships.

The council can address such questions as: Is there a commitment to use Schmidt Works as a leadership training ground for all children interested? What type of leadership does Schmidt Works need, and how can the children's leadership abilities be evaluated?

It is possible that unresolved issues surrounding the falling out between the father and the oldest child have led to less flexibility and more protectiveness now for both Robert and Dorothy. Robert may have heard the message, "Don't rock the boat," even if he also realizes that a fast-growing international business requires organizational innovation.

Dorothy may have to differentiate among her needs for recognition and approval within the family, her career aims, and her loyalty to Schmidt Works. It will help if she asks herself if the business is the only place she can interact with her father, learn from him, and prove herself. How does her career dream fit with opportunities at Schmidt Works? Discussions with other professional women can help Dorothy gain support and confirmation, hear ideas from others in similar situations, and enlarge her opportunities.

If Dorothy is to join the business, it is important that her training and evaluation be under the supervision of an experienced and trusted nonfamily manager and that she have her own domain in which to work, separate from Robert's area of responsibility. Robert's role should be one of collaborator in working toward joint family goals, not protector or competitor.

This is one of a series of case studies of family-business dilemmas, commented on by members of the Family Firm Institute and edited by Cleveland business consultant Ernesto J. Poza. The cases are real, but identities have been changed to protect the privacy of the individuals involved. The authors' opinions do not necessarily reflect the views of the institute. Copyright © 1990 by the Family Firm Institute, Johnstown, N.Y.

Drawing The Line On Competitors

By William D. Haut

One of your key salesmen leaves your company to work for a competitor. He then solicits the same customers he served for you, urging them to switch to your competitor's product. He is, of course, taking advantage of a rapport that you helped him build with those customers. In just six months, the salesman convinces 20 percent of them to switch to his new employer.

William D. Haut is an associate in the Elkhart, Ind., law firm of Warrick, Weaver & Boyn. The material in this article is provided for general information and should not be relied upon as legal advice generally or in any particular situation. Readers should consult their own legal counsel for advice as to how the subject matter of this article affects them.

What can you do about it? The answer depends on whether your former employee, at the time he came to work for you, had signed an agreement that he would not compete against you if he left your company. Such an agreement—commonly called a “noncompete” agreement—would enable you to protect your customer list and your company's goodwill from exploitation by the former employee.

In the absence of a noncompete agreement, however, former employees are generally free to solicit your customers and compete against you on the basis of other advantages derived from employment with your company.

Noncompete agreements are most frequently used in the contexts of an employer-employee relationship or a business acquisition. In the former context, employers typically use such

These tips can help you craft an agreement to keep former employees from using your resources to compete against you.

agreements to protect customer lists and confidential information. The materials being protected may be valuable to competitors, for example, who might hire a person at least partly because he or she had enjoyed access to those lists and that information.

In the context of a business acquisition, the buyer of an ongoing business is often buying, at least in part, the reputation and goodwill that the seller has helped to build. The purchaser is acquiring a relationship with customers and suppliers, and the buyer usually assumes that the seller will not open a competing business and keep all of his old customers.

To be effective, of course, a noncompete agreement must be enforceable. Whether a particular arrangement is enforceable depends on the facts and circumstances of the situation it is meant to cover. There are conflicting policy considerations that influence the interpretation and enforcement of such contracts. Among these are an individual's right to work and earn a living, the parties' right to make contracts, and the public's right to the benefits of competition free from undue restrictions.

Everyone has the right to earn a living. Restrictions on that right, such as a noncompete agreement governing future employment, should be sufficiently limited so as to be reasonable; such restrictions are closely scrutinized by courts.

Courts also recognize, however, that individuals have the right to enter into contracts and to expect enforcement of those contracts, particularly when the parties—such as the seller and the buyer of a business—have equal bargaining powers.

Moreover, restrictions in a noncompete agreement must not be perceived as reducing the level of competition or the availability of services to such an extent that the general public is affected adversely.

The need to balance these policy considerations can lead to uncertainty and



To protect your business, have employees agree not to compete against you after leaving your firm.

confusion about how enforceable a particular agreement might be. Nonetheless, there are five criteria that can be applied to a noncompete agreement in determining whether it would be enforceable. An agreement that failed on any count might be rejected if it were challenged in court. To be valid and enforceable—to withstand legal challenge—a noncompete agreement should be:

- Designed to protect a legitimate interest;
- Reasonably limited in scope;
- Supported by valid consideration (a benefit of some type);
- Ancillary to some other agreement;
- Not harmful to the public.

Point by point and in fuller detail, here are the elements to consider when drafting a noncompete agreement:

Legitimate Interest: Although a noncompete agreement must be designed to protect a legitimate interest of the employer, not all interests can be protected. The more an agreement restricts an individual's right to work, the less likely it will be enforced. The interest you seek to protect should be unique to you; the restriction should not be broader than necessary to protect the interest involved.

Interests that you may want to protect are trade secrets, confidential information, long-term customer relationships, goodwill, and special skills.

If you have made your customer list available to others, you cannot claim a legitimate interest in preventing a former employee from having access to it. A noncompete agreement that attempts to protect the identity of your customers is more reasonable, and therefore more likely to be enforceable, if it is limited to customers you have developed and maintained at significant expense, time, and effort. An agreement that simply attempts to prevent a former employee from competing with you for any customer or prospective customer is less likely to be enforced.

If you want to protect confidential information, the information should truly be confidential. If you have not treated the information as confidential, a court is unlikely to consider the information protectable. To maintain protectability of confidential information, take steps to maintain confidentiality both inside and outside the firm.

Scope: The time and place restrictions in the agreement, as well as the activities affected, should be limited to those necessary to protect your interest. If your company does business in only a very small geographical area, for example, it is unlikely that you can pre-

vent one of your former employees from starting a competing business outside that area.

An agreement restricting a former employee's ability to compete within a certain number of miles from your place of business may miss the point. The actual number of miles is not important. What is important is that the area of the restriction be related to the interest being protected. An area as large as the U.S. can be reasonable if you compete throughout the country. On the other hand, 25 miles may be unreasonable if you compete in a much

The interest you seek to protect should be unique to you; the restriction should not be broader than necessary to protect the interest involved.

smaller area.

If the interest you want to protect is your close relationship with your customers, the restriction should be limited to those customers. If you prevent a former employee from competing within a specified geographical area, rather than for your customers, the restriction may not be enforceable because its scope exceeds the interest being protected. You probably cannot prevent a former employee from soliciting business from people with whom you have never done business, no matter how small the geographical area.

Determining the duration of an agreement is often very difficult. If the time limit is too long, the covenant may not be enforced. If you are attempting to protect a manufacturing process that took three years to develop, a time period of no longer than three years is more likely to be enforced. An agreement designed to protect customer lists is more likely to be enforceable if it lasts no longer than it would take a competing firm to develop its own list.

Valid Consideration: Noncompete agreements, like all contracts, must be supported by consideration; that is, the employee must receive some benefit for agreeing not to compete. If you require an employee to sign a noncompete agreement in return for being hired, the hiring itself can be the consider-

ation. If you retain the ability to fire the employee at any time and for any reason, however, the agreement may not be enforced.

With respect to current employees, giving them some additional benefit, increased responsibilities, or a new position can help make it more likely that the noncompete agreement will be upheld in a legal challenge.

Ancillary To Another Agreement: The noncompete agreement should be part of some other agreement. In the case of an employee, it may be part of an employment contract. In the case of a shareholder, it may be part of a redemption or buy/sell agreement. In a business acquisition, obviously, the noncompete arrangement is part of the overall agreement to sell.


Courts generally are more receptive to enforcing noncompete agreements that are part of a business acquisition than those created between employers and employees. Not only are the parties in an acquisition on equal footing, but also it is likely that the sale price is higher as a result of the seller's agreement not to compete.

Impact On The Public: As a final consideration in making sure a noncompete agreement is enforceable, the parties must consider the effect of the covenant on the public. If the agreement will harm the public, it is unlikely that it will be enforced. A common example of an unenforceable agreement is one that attempts to prevent physicians from practicing in an area where doctors already are in short supply.

The enforceability of noncompete agreements varies from state to state and even from judge to judge. Because of the competing public policies and the many subjective considerations generally connected with a noncompete agreement, it is difficult to forecast with certainty whether a given agreement will be enforceable. If each element identified here is considered and the agreement is sufficiently restricted, however, the chances of the agreement's being enforced are improved.

A noncompete agreement is usually designed to cover the immediate concerns of an employer or the purchaser of a business, and courts will use additional considerations, including the public interest, in determining the validity of the limitations imposed.

A business person seeking the protection of a noncompete agreement should keep those larger considerations in mind when drafting one. ■

 To order reprints of this article, see Page 57.

Direct Line

In which experts answer our readers' questions about starting and running their businesses.

By Meg Whittemore

RECREATION

In The Swing

Do you have any information on developing a golf driving range and on the miniature-golf business?

M.A.G., North Wales, Pa.

(Similar questions from T.V., Boone, N.C.; and G.W., Ann Arbor, Mich.)

Contact the National Golf Foundation for information on establishing a driving range. *The Golf Range Manual*, available from the foundation for \$37.50, contains detailed information on all aspects of developing and running a golf driving range. To obtain the manual and other useful golf-business publications, contact the National Golf Foundation, 1150 South U.S. Highway 1, Jupiter, Fla. 33477; (407) 744-6006.

The International Association of Amusement Parks & Attractions offers a free list of consultants who can help



ILLUSTRATIONS: DEVE ALLEN

with planning, building, financing, and running a miniature-golf business. Write or call the association at 4230 King St., Alexandria, Va. 22302; (703) 671-5800.

AUTOMOTIVE SERVICES

Details, Details

I want to open an automotive detailing shop. Where can I obtain information on running such a business?

J.D., Longwood, Fla.

The International Carwash Association offers, at no charge, results of a survey on income and expenses of businesses in the segment of its industry that specializes in car detailing—extensive inte-

rior and exterior cleaning. Contact the association at 1 E. 22nd St., Suite 400, Lombard, Ill. 60148; (708) 495-0100.

Richard White, communications consultant for the Automotive Information Council, says industry trade publications may be helpful. *Professional Carwashing and Detailing*, a monthly with information on new products and on starting an auto-detailing shop, costs \$37 a year from National Trade Publications Inc., 13 Century Hill Drive, Latham, N.Y. 12110; (518) 783-1281. The monthly *Auto Laundry News*, \$15 a year, has information on car-washing equipment and on detailing. To subscribe, contact *Auto Laundry News*, 370 Lexington Ave., New York, N.Y. 10017; (212) 532-9290.

ACCOUNTING SERVICES

Bottom-Line Software

I want to start a bookkeeping service that sells computer software and also trains clients on the software. What type of licenses and credentials do I need? Also, are there loans available for women in business?

M.R.C., Rosemead, Calif.

(Similar question from P.E.B., Upper Marlboro, Md.)

A spokesman for the National Association of Accountants says you might obtain advice on licenses and credentials—and avoiding pitfalls—by discussing your plans with members of small CPA firms in your area. The



Small Business Administration (SBA) offers various pamphlets on the basics of starting a business. To obtain a publications list, call the SBA at (800) 368-5855.

For information on financing, contact the SBA's Office of Women's Business Ownership, 1441 L Street, N.W., Washington, D.C. 20416; (202) 653-7954.

THIS MONTH'S MOST-ASKED QUESTION

Businesses Clean Up By Recycling

The problem of what to do with our trash (160 million tons each year) has spurred an interest in recycling among our Direct Line readers.

How to start a recycling business ranks as one of the most-asked questions each month. Judging from our mail, small businesses across the country are actively starting recycling programs and/or using recycled products.

For example, Direct Mail Press, a Silver Spring, Md., printing business, started offering customers recycled paper three years ago. The firm's founder, Roger Telschow, says, "Eighty percent of our clients specifically request our line of recycled papers for their print orders."

Additionally, Telschow established an

on-site collection program for paper and cardboard. "We collect about three tons of recyclable paper and cardboard a month," he says, "and I encourage my employees, friends, and associates to drop off unwanted paper."

One of the information sources Telschow uses is *Resource Recycling*, a monthly magazine that covers trends and programs within the recycling community. A yearly subscription costs \$42. Write or call the circulation department at 1206 N.W. 21st Ave., Portland, Ore. 97210; (800) 227-1424.

Those readers interested in opening a recycling center can contact the Governmental Refuse Collection and Disposal Association. The association has a "peer-match" program to help people

COLLECTING



Cartoon Characters

Could you provide me with a source of information on where to purchase animated characters?

D.G., Decatur, Miss.

Animated characters are drawings done on pieces of film celluloid; these cels, when organized in sequence, produce moving film images of cartoon characters. Arnold Roth, with the National Cartoonists Society, says buying original cartoon cels is a "very big business now." Roth suggests that you write to him at the organization—157 W. 57th St., Suite 904, New York, N.Y. 10019—explaining your specific request; he will forward your request to the appropriate person. The organization's 500 members include animators.

Another source of information is Circle Fine Art, a national distributor of original cartoon cels. Regional Director Marietta Bielsky will help you locate a distributor in your area. Contact her at 303 E. Wacker Drive, Suite 830, Chicago, Ill. 60601; (312) 943-0664.

start recycling centers. The association will pay half the travel costs to bring together the program's participants. For more information, write or call GRCD, Box 7219, Silver Spring, Md. 20910; (301) 585-2898.

Finally, the Recycle Management Co. offers a 98-page, loose-leaf publication, *How to Start and Operate a Recycling Business*, which contains an environmental-impact report, lists recyclable materials, and discusses how to set up a business and establish collection programs within your community. The publication costs \$29.95 and may be ordered by writing or calling Recycle Management Co., P.O. Box 1607, Lake Havasu City, Ariz. 86403; (602) 453-1481.

"American consumers want to be environmentally responsible," Telschow says, "and the small-business community can go a long way toward helping them achieve that goal."

ENTERTAINMENT

Video Hook-Up

I manage a video store. Please send me the name and address of the trade association that represents the video industry.

J.N.F., Chicago

The Video Software Dealers Association has members who are retailers and distributors of prerecorded video products.

You can contact the association at 3 Eves Drive, Suite 307, Marlton, N.J. 08053; (609) 596-8500.

TRANSITIONS

Time To Sell

Our business is almost 13 years old and is doing very well. We feel that now would be a good time to sell. How do we select a good broker?

B.J., Cambridge, Mass.

(Similar question from V.H., Long Beach, Calif.)

Choose a broker as carefully as you would select any other consultant: Interview several firms, ask them how they would sell your business, and talk to several of their clients.

Establishing the value of your business is a task for professionals, says David R. Hoods, division president with The Geneva Companies, a middle-market merger-and-acquisitions firm in Irvine, Calif. He recommends that you hire an appraiser, who should not only calculate the firm's current and past



financial performance but also estimate the future marketability of its products or services. Says Hoods: "Eighty percent of the value of the business is based on the future value of the company."

RETAILING

It's In The Mail

I am interested in starting a mail-order business. How do I get started?

H.M.K., Cedar Hill, Mo.

(Similar questions from V.A.R.,

Chimo, Calif.; A.F., Las Vegas; and C.P., Wichita, Kan.)

Contact the National Mail Order Association by calling (213) 380-3686 and leaving your name and address. The association will send you a free information packet. The organization publishes *Mail Order Digest*, a monthly



newsletter covering new products, business-building opportunities, and direct-mail techniques.

MANUFACTURING

Made In The U.S.A.

I feel it is important to buy and sell quality American-made products. Is there a "Made in the U.S.A." organization, and what is its address?

M.M., Belchertown, Mass.

(Similar question from B.M., Pryor, Okla.)

You can start by contacting the Crafted With Pride in the U.S.A. Council, a non-profit organization dedicated to elevating public awareness of the quality and value in domestic retail apparel and furnishings. Kyle Sanborn, assistant director, says the council has "lots of useful information," but there is no definitive directory of "Made in the U.S.A." manufacturers.

Sanborn can give you the council's findings on consumer trends. Write or call him at the council, at 1045 Avenue of the Americas, New York, N.Y. 10018; (212) 819-4397.

HOW TO ASK

Have a business-related question? Send your typewritten query to Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062. Writers will be identified only by initials and city. Questions may be edited for space.

The editors of Direct Line have compiled the most-asked questions into the compact *Your Small Business Survival Guide*, at \$3 a copy. To order, write to the Circulation Department at the address above.

To Your Health

Managing well includes managing your own health; here is advice to help you do that better.

By Ronald P. Jensen, M.D.

New Options For Old Vision Problems

It never fails.

You're winding up a crucial business presentation, and your contact lens slips. Fighting the urge to clutch your watering eye, you stumble through.

Or, minutes before your flight is ready for takeoff, you suddenly realize, much to your chagrin, that your reading glasses are still on your desk.

Or, while you're bicycling on the first day of a long holiday weekend away from home, your regular glasses slip out of your pocket, and you must make do with prescription sunglasses the rest

Each kind of surgery is designed to correct a specific vision problem.

Radial keratotomy, or RK, for mild to moderate cases of nearsightedness and astigmatism, was developed by a Soviet surgeon in the early 1970s, and it has been available for 10 years in the U.S. In RK, microscopic incisions are made on the surface of the cornea in a radial, or spokelike, pattern. The effect is that the light rays entering the eye, which have been focused in front of the retina, focus closer to the retina instead, resulting in clearer vision. Astigmatism arises when the cornea is unevenly shaped; to correct it, the number, angle, and distribution of the

Generally, only one eye needs correction for presbyopia, since the brain balances the vision of the farsighted eye and the newly corrected one to achieve normal vision.

Keratotomy in situ, or KMIS, significantly improves vision for those with extreme myopia (nearsightedness) or hyperopia (farsightedness), eliminating the need for thick, heavy glasses. In KMIS, rather than making incisions, the surgeon removes a thin section of the cornea, changes its curvature, and reattaches it to the eye.

An estimated 400,000 Americans have had some form of refractive eye surgery. The great majority of patients have achieved normal vision and are free from glasses and contact lenses. Most of the rest have dramatically improved their visual acuity. At worst, the patients are at least able to wear thinner, lighter lenses.

Because not everyone is a candidate for refractive surgery (it is not appropriate for persons with a history of corneal disease or for some diabetics), a consultation visit should be the first step. During this visit, the candidate's eyes should be examined and tested with highly specialized equipment.

Surgery is performed during later visits, generally on one eye per visit. The surgical procedures are painless and remarkably brief—less than 15 minutes. Typically, the patient goes home the same day with a patch over the eye, the patch is removed the next morning, and the patient returns that day for a follow-up visit.

Side effects are usually minimal and temporary. The most common are light sensitivity and "star bursting"—reflections from lights at night—both of which diminish over time.

Each procedure permanently corrects a specific eye problem, but the correction does not rule out the emergence of a different problem in later years, possibly calling for another type of surgery. Follow-up studies of patients indicate that nearly 95 percent reach an uncorrected acuity of 20/40 or better; results of 20/20 to 20/25 are most frequent. The results depend greatly on the surgeon's qualifications, experience, and level of skill—which you should question when you are selecting a surgeon. ■

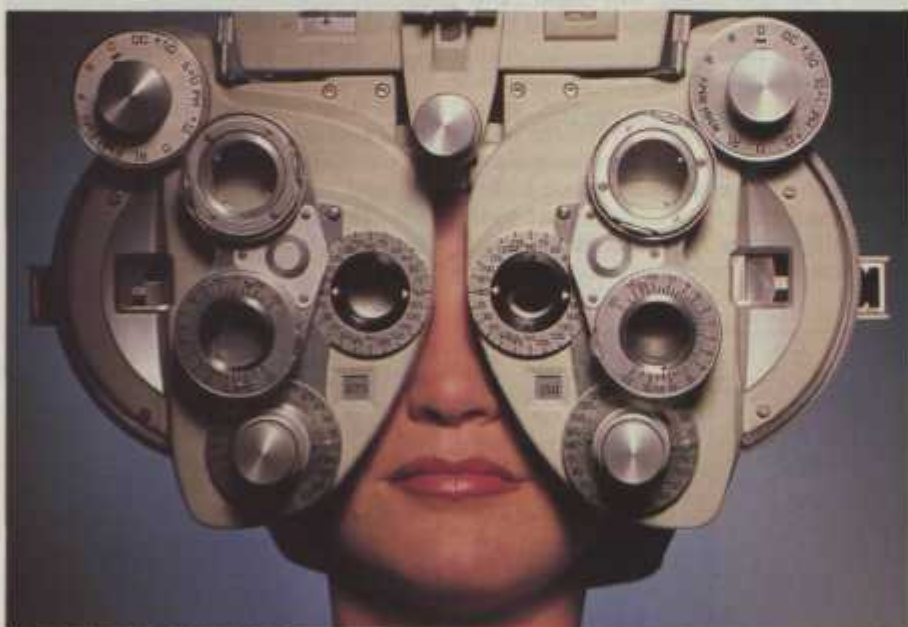


PHOTO © PETE SALOUTOS—THE STOCK MARKET

Eye examinations that once led to glasses may now lead to surgery instead.

of your vacation.

If any one of those frustrating scenes sounds familiar, you may want to consider an increasingly popular alternative to glasses and contact lenses. Over the past dozen years, a number of surgical options have emerged for relief of the common vision problems of nearsightedness, farsightedness, astigmatism, and blurry reading vision.

Ronald P. Jensen, M.D., is an ophthalmic surgeon at the Jensen Center for Refractive Surgery in Newport Beach, Calif.

incisions will vary from patient to patient, depending on the degree and axis of the astigmatism.

Less common, and practiced by only a handful of U.S. eye surgeons, is **hexagonal keratotomy**, or HK. It is a similar surgical technique, but it is specifically patterned to relieve farsightedness and presbyopia (the inability to focus sharply on close-up objects, a condition that occurs in almost everyone over 40 years of age). In HK, the incisions are in the shape of a hexagon, which brings the focus of the light rays forward from behind the retina.



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It's Your Money

A monthly survey of strategies, tactics, tips, and suggestions to help you with your personal finances.

By Peter Weaver

CREDIT CARDS

Those Credit Cards With Extra Warranty Coverage

You may have seen the commercial where a kid pushes gooey food into the family's new videocassette recorder. It looks like a parents' nightmare. But then the announcer soothingly says not to worry, because the VCR was purchased with an American Express card that includes damage or loss insurance. One phone call, and the replacement VCR is on its way.

American Express started the extra warranty and insurance coverage for its cards, and now everybody is joining the race. Visa and MasterCard gold cards offer a similar feature, and some major banks are even extending the coverage to their regular cards. Some are going so far as to offer it with special checking accounts.

The coverage works this way: If the product's original warranty is one year or less, you automatically get double the original warranty. If the regular warranty is longer than a year, you get



PHOTO: ©JOHN RILEY—POLAR, INC.

A credit card's insurance can protect the purchase of a future heirloom.

an additional one year of coverage. Thus, if the original warranty is one year, you get two years; if it's two years, you get three; and so on.

When a product purchased with the card is lost, stolen, or broken within 90 days after purchase, the card issuers replace it or give you your money back. There's a \$2,500 limit on how much

they'll cover on furs, jewelry, and cameras. Live animals, plants, and financial instruments are not covered.

"With everybody copying each other," says Gerri Detweiler, a spokeswoman for the BankCard Holders of America, a nonprofit consumer organization, "you don't need to get a specific card to enjoy the buyer protection plan." For this reason, she says, "it pays to shop around for the best card that offers the lowest revolving-credit interest, the lowest annual fees, or no annual fees."

If the product you buy is covered by homeowners' or home renters' insurance, however, this coverage usually comes first, before any credit-card benefits would kick in.

For example, if a \$2,000 Rolex is lost, stolen, or broken (within the qualified limits) and it's covered by your home insurance with a \$500 deductible, the card company would pay only the \$500 deductible. The insurance company covers the \$1,500 portion of the tab.

TRAVEL

"Saturday Night Specials" For Business And Pleasure

On weekends, airlines, hotels, rental-car agencies, and other companies that cater to business travelers die on the vine. So, this summer, they're out in force trying to drum up weekend trade by offering deep discounts.

"You can save all kinds of money on the airlines' Saturday night specials," says Randy Petersen, author of the *Frequent Flier Guidebook* and editor of *Frequent Update* newsletter.

These airline Saturday-night-stay bargains cost a fraction of the regular fare you pay for flights involving de-

partures and arrivals during the work week.

Petersen offers this example: "You fly from Dallas to Birmingham during the week and it costs you around \$635. ... With a Saturday-night stayover, the fare is only \$250."

You can parlay this Saturday-night-special theme into an even better deal if you work out what the travel industry calls a "circle trip."

Petersen gives this explanation: "If a person in Cincinnati has to fly to Boston during the week and return Friday, the ticket could run more than \$400. But if this person flies to Boston on business, flies to Los Angeles for the weekend and then returns to Cincinnati on Sunday, he or she might qualify for a Super Saver fare which would cost a lot less than the regular Cincinnati-to-Boston work-week trip."

You can work a "circle trip" through a lot of cities but not all. A travel agent knows where the best circles can be found so you can mix business and plea-

sure and save some money while you're at it. You might have to make your reservations one or two weeks in advance to qualify, and part of the fare may not be refundable if you cancel or change dates. Ask about this.

The big hotel chains such as Hilton, Marriott, Radisson, and Sheraton also knock weekend room rates way down in some cities. You pay half the regular price, and they often throw in discounts on meals, free cocktails, free health-club memberships, and other such amenities.

In areas that are not involved in heavy summer tourist traffic, some rental-car companies offer weekend specials from Friday evening to Monday morning for less than the one-day rate during the work week.

And, as a dividend, some people in the mental-health business believe taking a good number of weekend getaways is more relaxing in the long run than putting all your chips on one big blockbuster vacation.



Peter Weaver is a Washington-based columnist on personal finance.

EDUCATION

Rising College Costs: Bad News, Good News.

As you may well know, college costs are rising almost twice as fast as the consumer price index. This fall it will cost around \$90,000 in tuition, fees, and room and board to send a student to an Ivy League or other brand-name school for the next four years.

That's the bad news. The good news is that many other good schools charge far less than the brand names. For example, four years at the University of Colorado cost \$35,000.

By checking the college directories, you should be able to find some first-rate schools to fit your student's needs at a fraction of what Harvard, Princeton, Yale, and the others cost.

Richard Moll, in his book *The Public Ivies* (Viking Penguin), offers a detailed list of schools he believes offer a premium education comparable to that provided by the brand names.

Herm Davis, president of National College Services and publisher of *The College Financial Aid Emergency Kit*, recommends that a student consider the cost-saving procedure of attending a local community college for two years and then transferring to a top-line four-year school. "Nobody asks you where you started college," Davis



PHOTO: JEFF ZARUBA—THE STOCK MARKET

says. "They just want to know where you got your degree."

If you're still set on a high-priced college or university, don't rule out the possibility of obtaining financial aid.

You say you wouldn't qualify for aid because you make too much money? Don't be so sure. "The most common mistake I see with parents who come in for counseling," Davis says, "is the fact that they never even considered applying for financial aid."

Although colleges make aid available from their own resources, almost all of them want you to get whatever you can from government sources, in grants or loans, first. You must fill out a form—similar to a tax return—that a government-contracted screening company will use in calculating how much your family can contribute to your children's education. For example, if the calculation shows your family can pay \$15,000 a year, and if costs for all your students come to \$50,000, you may be able to get nearly \$35,000 in financial aid.

Another way to help with college costs is the private-sector loan program called ConSern. Providing students and their families with low-interest loans repayable over 15 years, the program is especially beneficial for middle-income families, which often don't qualify for federal assistance programs. To offer this loan benefit to employees, companies must maintain membership in the U.S. Chamber of Commerce. For details, call (800) SOS-LOAN.

TAXES

A Major Tax Shelter That's Often Overlooked

If you don't already have your own little side business percolating away, you might want to consider it. Besides making extra money and having some fun while you're at it, you may qualify for a whole list of valuable tax deductions.

Your business can be run out of your home, and it could involve consulting, computer-based work, or something more entertaining, such as making trout flies, growing orchids, or selling antiques.

You might be able to deduct the cost of setting up a medical-reimbursement plan that supplements the one where you work full time. If you use your car for business purposes (seeing clients, picking up supplies, making deliveries), the Internal Revenue Service says you can deduct 26 cents a mile. You should keep a good mileage-destination log to back up your claim.

You can deduct the various costs—on a pro rata basis—for utilities, cleaning, maintenance of the space (painting, repairs), and insurance.

There are all sorts of other potential deductions involved in attending conventions, seminars, and other such travel pertaining to your business.

Of course, equipment and supplies (answering machine, fax, copier, pro-

duction gear, cards, letterheads) are business deductions. There are special rules for computers. In short, if an expense can be attributed to your business, it's usually deductible.

Some people even take a sizable depreciation deduction for the space in the home that's used for business. "But there's a potential trap here," says Albert Ellentuck, tax partner with the Laventhol & Horwath accounting firm. "When you sell your home, the IRS wants to recapture the depreciation deduction you got for your business space when the home is sold."

In effect, Ellentuck explains, you're selling two spaces—one where you live and one where you conduct your business. The amount you deduct for business space will be taxed as regular income after the sale. "One way out of this," he says, "is to not use the space for business purposes during the tax year prior to the year of the sale."

You can hire members of your family to help with the business, and you can chalk up the wages as a business expense. If your business is not incorporated (and it need not be), wages paid to your children under age 18 can be excluded from Social Security withholding.

In general, the IRS would like to see your business make a profit in at least three of every five years of operation.

But some tax experts say meeting that profit test may not be necessary if you can prove that you are operating the business with a definite profit motive (have expertise, take out advertising, have cards and letterheads printed, and otherwise try to make a go of it).

If you incur losses in any year, you can reduce the taxable income on your personal return—dollar for dollar.

In general, these tax breaks are for sideline business owners who are involved in obvious for-profit enterprises. But what about a hobby that you try to turn into a business?

If it's an obvious hobby that you have been enjoying for a while, Ellentuck says, "losses can offset income, but you can't get more deductions."

He gives this example: You have \$3,000 in income from hobby sales, and your expenses and other deductions add up to \$5,000. There is no tax on the income, but you can't deduct the \$2,000 net loss from your other income.

Of course, if you show a profit in three out of five years of operation and show that you really mean business with your erstwhile hobby, you may be able to deduct all your losses.

Running a small business from your home, especially a hobby business, is often looked at with a jaundiced eye by the IRS. It's a good idea to review your plans with a CPA or other tax expert. ■

For Your Tax File

What you need to know to keep taxes from overtaking you.

By Gerald W. Padwe, C.P.A.

RETIREMENT PLANS

Straightforward Solutions

Owners of small and midsize companies often are perplexed by the options they face when selecting a tax-preferred retirement plan. Two such plans designed specifically for smaller firms are not complex, however, and they deserve consideration. One is the simplified employer pension (SEP), and the other is the employer-sponsored individual retirement account (IRA). Unfortunately, the plans' simplicity is at the expense of flexibility, so they are not for everyone.

The SEP is a special employer-sponsored retirement plan using an IRA to hold plan funds. Because the funds are simply paid into IRAs, all plan administration, distributions, and earnings are matters that involve only the participant and the financial institution with custody of the funds. There are almost no decisions for the employer to make regarding which employees will be included or the size of the contribution to each. In addition, the plan document is a fairly simple standard form provided by the IRS or the financial institution holding the funds.

To use a SEP, the employer must make a contribution for every employee who is over 21, who has worked for the employer for at least three of the prior five years, and who has earned at least \$300 for the year of the contribution. For all participants, the employer's contribution must be based on the same percentage of income, and it can be ap-

plied to only the first \$200,000 of salary.

Although options are limited, the plan can provide a surprisingly high, fully deductible contribution. Each year the employer may contribute up to 15 percent of compensation. The employee gets a report of the contribution, but the amount does not appear in taxable wages on the W-2 or the tax return.

An important benefit of a SEP at this time of year is that contributions can be

Despite its limitations, an employer-sponsored IRA may be just the right plan. Some employees clearly will qualify for a full deduction. There also is some benefit to the tax-free accumulation of interest even in a nondeductible IRA. Only with this approach can the employer pick and choose the recipients. In addition, the employer can say that future contributions depend on the employee leaving the money in the IRA, a stipulation that a SEP sponsor, by law, cannot make. Thus, there is some assurance that the employees are providing for retirement, as the employer intends.

PROPERTY EXCHANGES

Proposed "Like-Kind" Rules

In February, we looked at a 1989 IRS ruling on the exchange of assets of one television station for those of another. The IRS had ruled that exchanges of businesses cannot be looked at in the aggregate; rather, the underlying assets must be matched to see which are "like-kind" and which would not qualify for the tax-free treatment that goes with like-kind exchanges.

Now the IRS has raised the ante on this subject by proposing formal regulations to cover any exchange of multiple properties constituting a business unit for similar properties.

In testing the tax-free nature of the exchange, the properties will have to be broken into "exchange groups," which requires aggregating in a group all similar properties on each side of the transaction. Then, all exchange groups in the properties being given up are matched against those properties being received.

In the matching process, special rules will apply to depreciable personal property that will allow the exchange groups tax-free treatment if the properties are either "like-kind" or "like-class." These classes are either Business Asset classes, as defined in a 1985 Revenue Procedure, or Product Classes, as defined in particular Bureau of the Census publications.

If the proposals are finalized in their present form, businesses exchanging multiple assets will find important new restrictions on their ability to structure an exchange in a totally tax-free manner. **EB**



PHOTO: © EDGEMORTH PRODUCTIONS—THE STOCK MARKET

Employer-sponsored retirement funds need not be complex.

made after the end of the employer's tax year and still be deducted in that closed year. For instance, if a corporate employer extended the due date of its calendar 1989 tax return to Sept. 15, 1990, it can establish and fund an IRA prior to that date and take an additional deduction on that 1989 return.

A SEP may be too encompassing for your needs, however. For example, you may have only a few regular employees but many casual or seasonal employees whom you do not wish to include in such a plan. You then should consider an employer-sponsored IRA. As with a SEP, the employer simply writes a check to the bank, broker, or other trustee of the IRAs the firm has established for the employees. In contrast with a SEP, each employee reports the employer's contribution as income and then takes a normal IRA deduction. This means the maximum contribution is \$2,000, and all or part of a deduction may be denied if the employee or a spouse is covered by a qualified plan and their income is above average.



Gerald W. Padwe is associate national tax director for professional practice for Deloitte & Touche. Readers should see tax and legal advisers on specific cases.



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Franchising

Companies that offer services to other businesses often find that franchising is the way to grow.

By Meg Whittemore

Businesses Serving Businesses

Franchising is typically associated with retail businesses that offer products and services—fast foods, automotive products, clothing, videos, printing, and home remodeling, to name just a few. But franchising also makes its mark in professional services—legal, insurance, business-management, accounting, and bookkeeping, for example. Although some professional-service franchises date back several years, many more have only recently begun to franchise. And the idea is spreading.

"Business-to-business service franchises are a relatively new concept," says John Reynolds, director of marketing and public relations for the International Franchise Association, "and we are in front of the growth curve, not in it."

A pioneer in business-service franchises is Comprehensive Accounting Corp., of Aurora, Ill. Its founder, Leo Lauzen, started his accounting and bookkeeping business in 1948 specifically to serve small and mid-sized businesses.

"The accounting system is pivotal to the health of a business, regardless of size," says Lauzen. "It provides both an early warning system to pinpoint oper-

ating problems and a planning device for future profitability."

By 1966, Comprehensive Accounting had grown to become the largest monthly accounting service in the U.S., and Lauzen decided to sell franchises, primarily to qualified accounting professionals. Today, Comprehensive has more than 240 franchisees nationwide serving 20,000 monthly business clients.



Franchisee Anthony DiStefano, right, with clients Donald and Jill Hite.

The concept is designed for entrepreneurial professionals such as Anthony DiStefano, who owns a Comprehensive franchise in Marlboro, N.Y. During the 1970s, DiStefano was an accountant with a large accounting firm when he decided he wanted his own business.

He found that opening his own firm would cost more than buying a Comprehensive Accounting franchise; it cost him \$55,000 back in 1978, and the figure is the same today.

From the start, DiStefano says, he received consistently strong support from the main office. "There was always somebody to call to solve your problems," he says. Standard franchisee support includes marketing and sales training. "There was a marketing person who called me every night to make sure I made cold calls on busi-

nesses that day and followed up to find out what resulted from my visits," DiStefano says.

As a result of that Comprehensive-based sales training, DiStefano acquired 48 clients in his first year of operation. His franchise currently services 94 small and medium-sized businesses within 25 miles of Marlboro. "Going door to door and making sales pitches has results that are statistically proven," he says.

For every 20 cold calls, DiStefano netted three new clients, he says. "I never sold anything in my life until they trained me."

DiStefano's clients pay \$120 to \$397 a month depending on the volume of work. The fee pays for monthly payroll, bank reconciliation, general ledger, an operating statement, a balance sheet, and related tax items. All of that information is sent to the client within 30 days and therefore reflects the current

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status of the business. Additionally, DiStefano says, "we have computer support, which enables us to produce a financial statement that is comparable to what a Big Eight accounting firm produces."

Accountants traditionally have shied away from taking a direct sales approach to gaining new customers. "The stereotype accountant is not an entrepreneur," says DiStefano. "To go out, knock on doors, and say 'Hi, I want to be your accountant' is foreign to most professional accountants."

Clearly, the direct sales approach has worked. Systemwide, Comprehensive has a certified net worth of \$6 million, with 1990 annual sales projected to be \$64 million.

"The key to success," says Lauzen, "is to be more concerned with your clients' success than your own."

Even though Comprehensive has built a track record based on capturing the narrow niche of accounting and bookkeeping services, Lauzen is expanding his focus to include a wider range of business-management consulting services.

A firm that has long focused on a wide range of services is E.K. Williams & Co. of Westminster, Colo. The 55-year-old company has been franchising

since 1946 and offers its clients—small and midsize independent and franchised businesses—a monthly information package that enables the business owner to analyze the firm's direction on a day-to-day basis.

Business-to-business service franchises are a relatively new concept, and we are in front of the growth curve, not in it.

—John Reynolds
Director of Marketing
and Public Relations,
International Franchise Association

"One of the reasons we have been so successful is because we designed our entire system around finding out what information our client needs to make a profit, instead of just compiling the ac-

counting data needed for tax returns," says William Atkins, president of E.K. Williams.

The approach has worked. In 1989, E.K. Williams' gross sales systemwide were \$270 million. Currently the company has 301 franchises in the U.S. and 219 in 22 other countries.

A full 90 percent of E.K. Williams' business is with other franchisors and their franchisees. "We have a cookie-cutter approach," says Atkins, which means every client receives the same kind of services.

"We only do it our way," he says. "If you want a customized report, we can't do it very efficiently."

For a \$165 monthly fee, E.K. Williams provides all of a business's accounting work, provides industry and market data and analyses, consults with the business owner on setting goals, and handles all the necessary tax work.

E.K. Williams currently expects to grow internally by adding only five to seven clients a year (all of them franchised businesses). The time is ripe, says Atkins, for significant growth within the industry.

Leo Lauzen agrees. "Business-service franchising is coming of age," he says. ■

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Working Just One Morning Each Week**Illinois Woman Reveals Little Known Secret That Made Her \$60,000 In Just 90 Days**

By Ed Hirsch, Special Feature Writer

JOLIET, IL—You may have read about Nancy Freeman in leading business publications or seen her on network TV. A highly-successful real estate broker, Freeman owned some apartments in her hometown of Joliet, Ill. About 8 years ago, she heard about Property Valuation Consultants, a company that lowered real estate taxes. PVC did the job and saved her thousands of dollars for which it received a percentage of the savings.

Several years later, she was approached by PVC to offer their services to her property-owning clients. Representing the company one morning each week, she netted better than \$60,000 in just 90 days! Freeman soon bought PVC, and the 15-year old company is now embarking on a major program setting up PVC affiliates in all 50 states.

One of the best kept secrets is that property owners can actually appeal their real estate assessments. Nationally, fewer than 2% of all assessments are ever challenged. But a recent study of 10 major cities shows that 4 out of 5 assessments were reduced on appeal. "Most people don't even know how to attempt it," says Freeman, "and we handle everything for them in a win-win situation."

According to Freeman, "With correctly assessed property more often the exception



than the rule, the market for PVC is wide open." Using a copyrighted system, PVC represents the property owner on a contingency basis, receiving from 1/3 to 1/2 of the savings. Most clients renew yearly, which is how an incredible residual income can be built up.

PVC affiliates pay a \$9,900 start-up fee which includes comprehensive training, manuals, materials, forms and just about everything else needed to get started. Ongoing consulting is also included; PVC and its staff work closely with each affiliate walking them through the various steps involved in working with clients.

"This business can be run out of a small office or even a home," says Freeman. "All you need is a phone. We show our trainees how to attract as many qualified clients as they can handle," she adds. "Just 50 clients per year can net over \$100,000, and we serve more than 1,500 clients in any given year here in Joliet, a city of only 73,000 people."

PVC has hired motion picture and television actor Eddie Albert as its national spokesman and has offered to send complete details and a free videotape to interested parties. Call or write Rick Neiswanger, PVC Marketing Systems, 12033 Gailcrest, St. Louis, MO 63131, 1-800-782-1050.

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Free-Spirited Enterprise

By Janet Lowenstein

Some enterprising companies have come up with ideas to help us through the special problems of summer. Here's a sampling:

THE BRUSH OFF

Sun Products, of Citrus Heights, Calif., wants to take the mess out of sun-bathing. Its new Beach Brush helps sun worshipers remove sticky and annoying sand from towels, suits, and skin.

The brush comes in five neon colors. The manufacturer expects it to be the hottest item on the beach.



ILLUSTRATIONS: JIM LAMBERSON

COLD COMFORT

Associated Ice Cream, of Westerville, Ohio, has a product for the dog days of summer—Frosty Paws, a frozen treat for dogs. This soy-based product was formulated for dogs by an animal nutritionist.

The dessert sells for about \$1.79 in the ice cream novelty sections of major supermarkets.

The package says Frosty Paws is "not ice cream, but your dog will think it is!" You won't. A spokesperson for Associated says it's fit for human consumption but tastes like "unsugared pancake batter."



SWINGING NOTIONS

Frustrated golfers, take heart. **Interlink Electronics**, of Carpinteria, Calif., offers help for your game through its Force Sensing Resistors. These unobtrusive touch sensors are built into some new golf clubs or can be retrofitted to existing ones. When pressure is applied to the sensor, the FSR translates it into a readable format that lets golfers measure the strike force of their putters as well as the pressure in their grips and swings.

Of course, your problem may have nothing to do with your swing. It may be cold golf balls.

Advanced Golf Concepts, of Tarrytown, N.Y., has introduced Thermal Distance, an electronic device to heat golf balls. Bill Cullen, president of the company, says



heated golf balls reduce friction as the balls fly through the air, so the golf balls can go up to 8 percent farther.

It works equally well on hooks and slices.



LAUGHING MATTERS

Just when you thought it was safe to listen to jokes again, along come Gummy Lawyers.

That's the name of a joke kit from **Nolo Press**, of Berkeley, Calif. It contains a booklet of lawyer jokes written by Barbara Kate Repa, a lawyer, and it also includes a packet of blue shark-shaped candies, called Gummy Lawyers.

The booklet explains the purported similarities between sharks and lawyers, and it contains a warning to anyone tempted to eat the candied sharks: "Like the real thing," it says, "they'll leave a bad taste in your mouth."

If you've had your fill of lawyer jokes, you may find more palatable chuckles—along with entertaining and inspiring stories—in *The Book of Business Anecdotes*, by Peter Hay (Facts on File).

The book is a comprehensive reference for speakers searching for the perfect opening anecdote. The stories are arranged in sections—Selling, Managers at Work, and others—and include one of our favorites:

When someone asked J.P. Morgan Sr. for a tip on what the stock market was likely to do, he reportedly said, "It will fluctuate."

For some of us, finding the perfect line is easier than delivering it. **Bob Orben**, an Arlington, Va.-based speech consultant for business people, offers us help.

Orben conducts workshops and seminars on all aspects of speech writing, from conception through content, organization, writing, delivery, and follow-up. He says it's not mandatory to begin with a joke, but "you'd better grab them in the first minute or two."

He ought to know. For more than 40 years he's been writing jokes for such notables as Red Skelton, Jack Paar, and Gerald Ford.



Where I Stand

This Month's Issue: **HEALTH CARE**

Tell us where you stand on health care. Your response gives you a direct voice in the policy-making process of the U.S. Chamber of Commerce and helps us cover this issue.

Simply fill out the attached postage-paid card or fax this page to us at 202-463-5636.

1. How much did the cost of your company's employee health insurance increase this year?

- ☐ 0% ☐ 30% to 49%
☐ 1% to 15% ☐ 50% or more
☐ 16% to 29%

2. How much do employees at your company contribute to their health insurance?

- ☐ \$0; the company pays 100%
☐ \$0; company has no health plan
☐ Up to \$39.99 per month
☐ \$40 to \$79.99 per month
☐ \$80 or more per month

3. What cost-containment features does your health plan include?

(Check all that apply)

- ☐ HMO (Health Maintenance Organization) ☐ PPO (Preferred Provider Organization)
☐ Managed care ☐ Preadmission certification
☐ Utilization ☐ None
☐ Wellness

4. How do you plan to control future health-insurance costs?

- ☐ Increase employee contribution
☐ Increase deductibles
☐ Increase copayments
☐ Change providers
☐ Implement managed-care plan
☐ Reduce benefits

5. What prompted any change your company made in health-insurance providers/policies in the past year?

- ☐ No changes were made
☐ To cut costs
☐ Provider canceled policy
☐ Other: _____

(Please describe)

6. If you do not offer health insurance now, why not?

- ☐ Too costly
☐ Cannot find provider to write a policy
☐ Other: _____

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COMMENTARY

Congressional Alert

Wetlands Policy's Business Impact

The recent elevation of wetlands protection to the national agenda has significant implications for business. Development of wetlands policy is affecting activities such as farming, ranching, forestry, coastal develop-



PHOTO: © RANDY DROUINE—THE STOCK MARKET

ment, water-management projects, electric utilities, and the siting of manufacturing plants.

President Bush has adopted the goal of "no net loss of wetlands." There is no unanimously agreed-upon definition of a wetland, however, and there is no consensus on how best to achieve the goal of no net loss.

The president's Domestic Policy Council Task Force on Wetlands is expected to hold public meetings around the country this year to solicit comments suggesting appropriate ways to achieve no net loss of wetlands. Many wetlands bills have been introduced in Congress, including S. 1731, which calls for increased protection of coastal wetlands.

The U.S. Chamber of Commerce strongly believes that an inflexible national wetlands policy would skew the balance between wetlands protection and multiple land use.

Contact your representative and senators, and urge them to support a national wetlands policy that balances environmental concern with continued economic growth.

Fairness In Foreign Aid

The "Aid for Trade Act" is a Senate bill designed to adjust U.S. foreign aid and export-financing programs to enhance American economic interests. S. 2703 would require, in effect, that much U.S. economic assistance



PHOTO: © VINCE STEWART—THE STOCK MARKET

to foreign countries be used to purchase U.S. goods and services—a requirement known as "tied aid."

The bill also would strengthen the ability of the U.S. Export-Import Bank to offset the "mixed credit" policy of many foreign governments, a policy that combines concessional export financing with assistance grants to obtain advantages in export markets.

S. 2703, if enacted, also would focus much U.S. foreign assistance in support of capital projects.

Although the U.S. Chamber of Commerce disapproves of tied aid as a distortion of free trade and supports negotiations to end such practices, it acknowledges that the U.S. cannot stand by while its major trading partners engage in practices that cost American firms billions of dollars in lost export opportunities.

Contact your representative and senators. Urge support for such legislation as S. 2703, which would restructure foreign aid and export-financing programs to advance U.S. economic interests.

Here, in brief, are important legislative issues along with suggestions from *Nation's Business* on what you should tell members of Congress about them. Addresses: U.S. Senate, Washington, D.C. 20510 and U.S. House of Representatives, Washington, D.C. 20515.

Banning Striker Replacement

Employers may face increased labor strikes and drastically reduced leverage with their workers if Congress approves certain legislation pending in both houses. S. 2112, introduced by Sen. Howard Metzenbaum, D-Ohio,



PHOTO: © JIM BURNER—WOODRUM CAMP

and H.R. 3936, introduced by Rep. William Clay, D-Mo., would prohibit employers—whether union or non-union—from hiring permanent replacement workers during a strike. If enacted, such a measure would drastically shift to unions the balance of power in labor disputes.

During a strike, many firms would find it impossible to fill the jobs of strikers with temporary workers. Such firms would be forced in effect to concede to union demands or face the prospect of halting or significantly reducing business operations.

Such choices would give unions power to force employers to accept unreasonable and economically unrealistic demands.

The measure also would prohibit employers from granting employment preferences to workers who cross picket lines and return to work; their promotions or job assignments earned during a strike would be rescinded after the strike.

Contact your representative and senators, and urge opposition to S. 2112 and H.R. 3936. ■

Editorials

It's Time For A Hard Look At The Postal Service's Labor Costs

The U.S. Postal Service will shortly enter labor-contract negotiations covering most of the agency's 750,000 employees. Unfortunately, the Postal Service has imposed serious handicaps on itself in advance of these talks.

Its announced proposal for a rate increase that could bring in \$8 billion more a year is hardly likely to spur moderation by union leaders framing demands. And the Postal Service's bargaining strategy specifically excludes requests for "givebacks," through which the unions would surrender some previously won gains to bolster the long-range health of their employer.

These labor-management talks are getting under way, moreover, against a background of previous rate increases that have caused postal rates to go up much faster than the basic inflation rate. In the last three years alone, those rates went up 20 percent while the inflation rate was 14 percent.

Labor costs have driven postal expenditures. Wages and benefits represent 83 percent of Postal Service outlays. The chart above shows how it spends 30 cents.

The average postal salary, including benefits, is more than 47 percent higher than the average for private-sector workers.

How The Postal Service Spends 30 Cents*

25 CENTS
Covers:



■ Labor Costs

5 CENTS
Covers:



- 40,000 Post Offices
- Nationwide Vehicle Fleet
- Installation and Maintenance of Automated Equipment
- U.S.P.S. Headquarters

* Cost of first-class stamp under pending rate proposal.

Postal-worker compensation went from a base of 100 in 1970 to 458.6 as of last year, while average private-sector compensation stood at 276.5 at the end of 1989. The Consumer Price Index went to 319.6 over the same period, and it provides a measure of who were the winners and losers in the inflation battle of the past two decades.

The favored position of postal workers relative to that of private-sector employees exists despite a provision in the law creating the present Postal Service that postal wages be comparable to those paid in private industry.

The postal unions should keep two economic fundamentals in mind as they begin another quest for still more generous compensation: The willingness of the public to absorb rate increases is limited, and there is a point in price escalation at which such alternatives as private mail services and fax machines become economical-

ly more attractive to customers.

In view of the pending rate increase, the upcoming contract negotiations offer a timely forum for a full exploration of what needs to be done to bring postal labor costs in line with the realities of the marketplace.

The American public would benefit from such a review and, in the long run, so would the postal workers.

Civil-Rights Bills Are Supposed To Prevent Quotas

Civil-rights activists fought successfully against the ethnic and other quotas that once limited access of individuals to jobs, education, and other areas of American life.

Ironically, Congress is now considering "The Civil Rights Act of 1990," which could force many employers to establish quota systems in hiring.

Under its provisions, a statistical disparity between the makeup of the available work force and that of a given employer could create a presumption of discrimination, however unfounded.

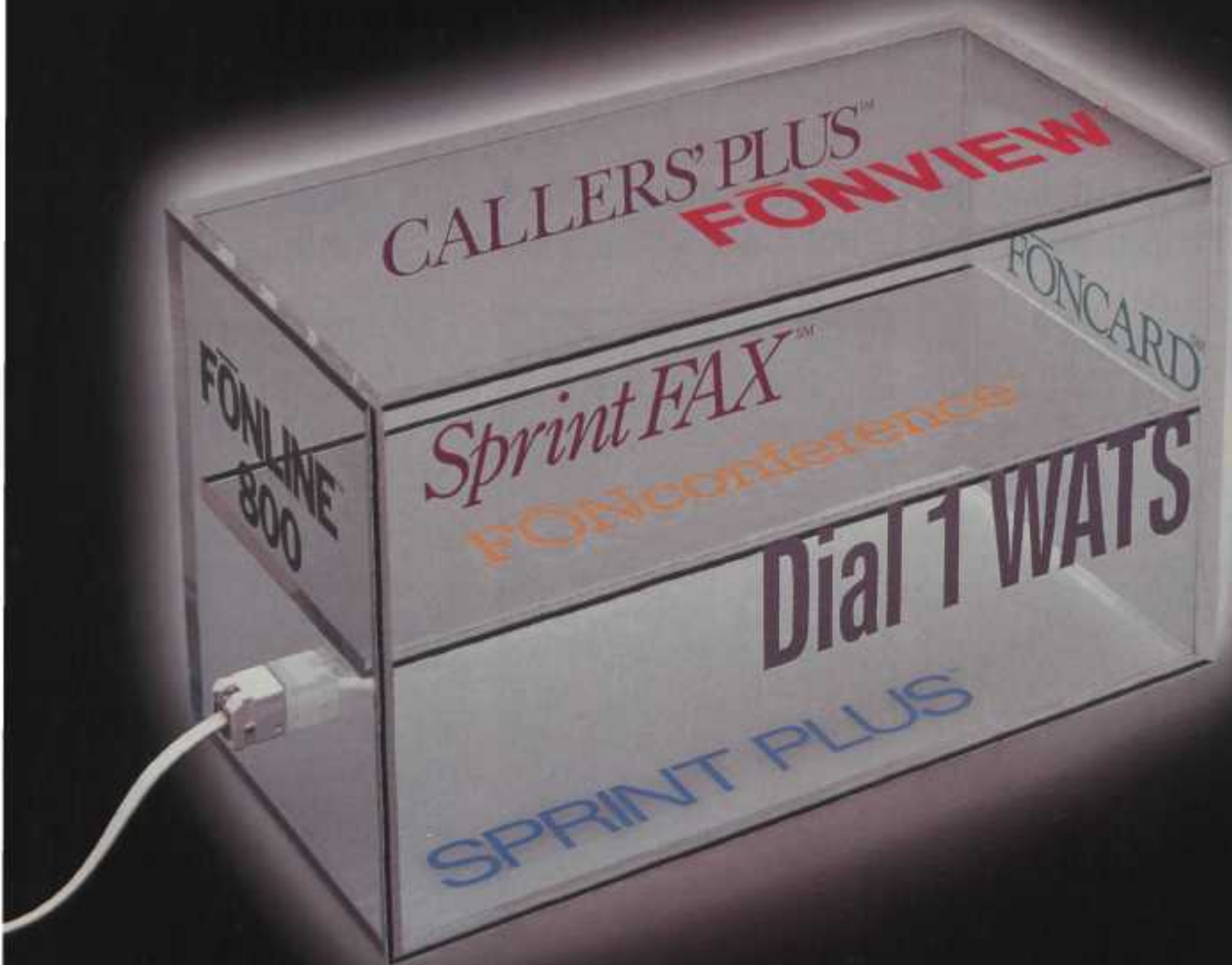
Once a statistical imbalance was shown, an employer could be required to prove that the overall employment process and each step within that process is substantially and demonstrably related to effective job performance.

That arrangement puts pressure on employers to use hiring quotas or other proportional arrangements to ward off allegations of discrimination and costly litigation.

The measure contains other provisions that would greatly increase the risk of lawsuits and awards against employers for damages. The prospect of damages would be a litigation incentive for disgruntled employees and their lawyers.

Because of its "civil-rights" title, the bill is a particularly sensitive one for members of Congress. Business people must take the lead in pointing out to those lawmakers that the bill represents a major step backward in the quest for genuine civil rights. ■

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